SUSTAINABILITY OF MICROFINANCE INSTITUTIONS IN GHANA; A CASE STUDY OF OPPORTUNITY INTERNATIONAL SAVINGS AND LOANS LIMITED

By

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DECLARATION

I hereby declare that this submission is my own work towards the MBA and that to the best of my knowledge it contains neither materials previously published by another person or materials that have been accepted for the award of any other degree by the University or any other university except where due acknowledgement has been made in the text.

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DEDICATION

I dedicate this work sorely to my late sister, Ellen Achiaa Brefo who stood as "locus parentis" since my childhood. Her keen interest in my education coupled with her financial support over the years has brought me this far. Her dream was to see me go through my second degree programme successfully. I vehemently believe that her soul will rest in peace as I dedicate this peace of work to her, signifying success and a dream come through.

ABSTRACT

According to the World Bank (2000), Micro Finance Institutions (MFIs) have proven to be one of the surest means of realising the MDGs. In this light, the sustainability of the institutions has become imperative. With the main objectives of examining the sustainability of MFIs the study used Opportunity International Savings and Loans Limited (OISL) as a case study. Soliciting information from both primary and secondary sources, the study observed that OISL has performed creditable well in terms of market penetration. The company's number of branches has increased from 2 to 14, representing an annual percentage change of 38 percent. Additionally, the company's total gross portfolio has increased from US$ 2217100 to US$ 21736000, representing a percentage increase of 161.5 percent.

The study further identified the number of clients to have increased by 371.2 percent from 12,712 to 59,896 between 2004 and 2008. Additionally the study identified that for the company to achieve it anticipated gross loan portfolio level of GH¢ 209,923,518 by 2014, the number of clients should total 552,441 if clients are the only means to increase the gross loan portfolio.

Despite these successes towards its sustainability, the staff especially Credit Officers are not satisfied with their conditions of service. This has led to high labour attrition rate which has in turn affected the portfolio at risk (for more than 1 day and for more than 30 days). Additionally, loan repayment rate has declined from 99 percent to 96 percent whilst profit after tax has reduced by 193.4 between 2007 and 2008.

Additionally, local initiatives are not encouraged due to the over-centralisation of the decision making process. Finally, the high interest rate charged by the company has contributed to the low retention rate of 60 percent, 20 shot of the standard.

In line with these challenges, the study recommended that staff welfare should be paramount. Managers are advised to bridge the disparity between the conditions of service in the

mainstream banking sub-sector to reduce the high incidence of labour attrition. Furthermore, decentralisation of some decisions should be targeted. This will provide incentives for innovativeness to promote efficiency and effectiveness.

Lastly, the study recommended that other modes of mobilising funds should be encouraged to reduce the over-dependency on the interest on loans. This can sustain the client numbers if interest reduces.

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ARB	Association of Rural Banks
ASSFIN	Association of Financial NGOs
BOG	Bank of Ghana
CGAP	Consultative Group to Assist the Poor
CUA	Ghana Co-Operative Credit Unions Association
ERP	Economic Recovery Programme
GCSCA	Ghana Co-Operative Susu Collectors Association
GHAMFIN	Ghana Microfinance Institutions
GPRS II	Growth and Poverty Reduction
GSS	Ghana Statistical Service
KMA	Kumasi Metropolitan Assembly
MASLOC	Microfinance and Small Loans Centre
MDAs	Ministries, Departments and Agencies
MMDAs	Metropolitan Municipal and Districts Assemblies
MDGs	Millennium Development Goals
MFIs	Microfinance Institutions
NBFI	Non Bank Financial Institution
NGOs	Non Governmental Organisations
NPP	New Patriotic Party
OIS&L	Opportunity International Savings and Loans Limited
PAMSCAD	Programme of Action to Mitigate Social Cost of Adjustment
PNDC	Provisional National Defence Council
PNDCL	Provisional National Defence Council Law
RBI	Reserve Bank of India
SAP	Structural Adjustment Programme
SMEs	Small and Medium Scale Enterprises
UNDP	United Nations Development Programmes

CHAPTER ONE
BACKGROUND OF THE STUDY

1.1 Introduction

Poverty and its associated difficulties, have been high in Ghana (28.5 percent as at 2006) though in the periods immediately after independence, Ghana was adjudged to be one of the richest countries in Sub Sahara Africa with a per capita income of $500 (Yeboah, 2008). Such difficulties make the poor vulnerable and prone to sudden shocks and long-term stresses (Meikle, 2002; Moser, 1998).

With a commitment to reducing poverty and improving the living standards of the citizenry, Ghana in the 1980s adopted the Structural Adjustment Programme, initiatives from the Bretton Wood institutions, to correct the inherent flaws such as balance of payment problems in the system. It subsequently initiated PAMSCAD to mitigate the social consequences (retrenchment and unemployment) of the SAP and ERP.

Despite these interventions, by 1991/92 the incidence of poverty was estimated at 52 percent (GSS, 2006; UNDP, 2004). Multi dimensional approaches were therefore required to reduce poverty to the barest minimum in line with the renewed global agenda evident through the millennium declaration – MDGs. These approaches were not only required from the government's direct investment in the sectors of the economy but also through the creation of the enabling environment to propel the private sector premising on the background that the private sector is the engine of growth and structural transformation of countries' economies (Colander, 2004).

Through the enabling environment (evident through sound macro economic policies), the private sector has shown an innovative interest in investing in the economy of Ghana cutting across several sectors including education, health and finance. Under the financial sector, MFIs have been seen as one of the surest means of promoting growth and reducing poverty due to their common objective of expanding the economic opportunities available to the poor. Experiences have shown that microfinance can help the poor to increase incomes, build viable businesses and reduce their vulnerability to external shocks. It can also be a powerful instrument for self–empowerment by enabling the poor, especially women, to become economic agents of change.

Linked to the conception that they are useful tools for poverty reduction, MFIs have gained currency in Ghana over the last two decades through government's efforts. The PNDC government established the Council for Indigenous Business Association, the National Board for Small Scale Industries and the Ghana Regional Appropriate Technology and Industrial Service to offer skill training and basic working capital tools for start-ups. These efforts were complemented by the NPP led government's Micro Credit and Small Loans Centre (MASLOC), the Social Investment Fund (SIF) and Export Development and Investment Fund (EDIF). All these are designed to support petty traders, businessmen and self-employed households to increase and diversify income, increase assets and to socially empower the poor especially the women to contribute to economic development.

Emanating from these governments' interventions, the number of MFIs in Ghana has increased dramatically. They have become increasingly involved in providing financial services to SMEs focused on poverty reduction and the economic survival of the poorest of the poor.

Judging by the successes of MFIs in reducing poverty through socio-economic empowerment in Ghana and the world at large, the issue of concern to policy makers and implementers regards the sustenance of the benefits derived from the MFI to both individuals and the society as a whole. In other words, in order for microfinance to continue to be a valuable tool for poverty reduction, it must be able to withstand the test of time. Sustainability – the potential of MFIs to continue as a closed, self-generating system – is therefore essential (Tulchin, 2006).

It is against this background that this study, using Opportunity International Savings and Loans Limited as a case study, examines the sustainability of MFIs in Ghana. The study hoped to identify the bottlenecks in their operations and suggest a practicable solution to arresting them.

1.2 Problem Statement

Since 1990, micro-finance has captured the imaginations of governments and donor agencies as a key strategy for poverty reduction in the developing world (Parveen, 2005). Supporters have argued that micro-finance institution (MFIs) can not only have a major impact in the fight against poverty but can do so on a sustainable basis (Paul and Conroy, 2000).

In Ghana and many other developing countries, micro credit institutions mainly have been treated as important development instruments in the fight against poverty and dependency on central and local governments. They are proven as useful tools employed in widening the social and economic capacity of people. MFIs through their loan facilities, have given start-up capitals to several entrepreneurs. Several other economics actors have been provided with micro credits to expand and sustain their businesses. These feats have contributed to reducing the burden on the central government in terms of employment, credit provision and general standard of living. The MFIs have thus been seen as vital instruments in Ghana's quest to reduce poverty.

This pivotal role being played by MFIs would worsen the already copious demands on the central and local governments if stopped/abandoned. This concern has raised serious issues regarding the MFIs sustainability particularly in the developing countries (Parveen, 2009). Thus the issue of utmost concern to policy makers and implementers is how to sustain the benefits derived from MFIs. This has necessitated the need to undertake studies to identify the factors affecting the sustainability of the MFIs. The need to ensure the sustainability of MFIs equally justifies the need to unveil the challenges hampering their effectiveness and the way forward.

In line with this, the Opportunity International Savings and Loans Limited which has been in existence for the past four and half years is used as the case study.

1.3 Study Objectives

1.3.1 General objective

The general objective of the study is to examine the sustainability of Microfinance Institutions in Ghana.

1.3.2 Specific Objectives

Emanating from the general objective above, the following specific objectives were set to be achieved:

1. To assess the firm's financial viability and sustainability;
2. To examine the extent of Opportunity International's contribution to poverty reduction;
3. To examine customers' perception about the company's policies (loan granting, interest rate and any other services);
4. To examine the challenges confronting the operations of Opportunity International Savings and Loans Ltd.
5. To suggest the way forward towards MFIs sustainability.

1.4 Methodology of the Study

1.4.1 Scope of the Study

The study was restricted to the Opportunity International Savings and Loans Limited located in Kumasi, the Ashanti Regional capital. The study covered the three branches of the firm located at Kejetia, Suame and Asafo.

1.4.2 Data and their Sources

In this study, two main data collection tools were employed for empirical data; these are direct observation and questionnaire. Secondary data from existing literature were also used to complement the empirical data.

1.4.3 Data Analysis

The data obtained during the survey were analysed using both qualitative and quantitative techniques. Whilst the quantitative analysis centred on the use of statistical data such as the measures of central tendency, product moment correlation coefficient and coefficient of determination, the qualitative analysis gave more insights to the quantitative analysis from the subject under study's perspective. Since both methods have some biases, using both types of analytical styles helped to avoid biases in that, each method was used to check the other.

1.5 Significance of the Study

In view of the pivotal role being played by MFIs, concerns about their sustainability is not an overemphasis. The sustainability of MFI premising on the fourth key microfinance principle states that "microfinance can pay for itself, and must do so if it is to reach … large numbers of poor people" is imperative.

This study is thus significant based on the background that it sought to unveil the challenges hampering the sustainability of MFIs in Ghana with the hope of drawing the attention of policy makers and implementers to them. It is expected that the policy recommendations that are suggested by this study will be beneficial to all stakeholders in the sector especially for bank officials, prospective entrepreneurs, borrowers and the central government. These recommendations also endeavour the stakeholders to initiate innovative policy measures aimed at contributing to the sustainability of Micro Finance Institutions in Ghana.

1.6 Limitations of the Study

The successful completion of the study was hindered by the following two constraints:

The time available for the study did not permit the consideration of all the MFIs in Ghana. Additionally, other active borrowers of other MFIs could have been considered for a comprehensive study and easiness of generalisation had the researcher got enough time at his disposal.

Access to the required information on time was a serious constraint. The firm understudy that was required to provide the information were unwilling to give in under the disguise of confidentiality. This protracted and thus delayed the time allotted for the data collection exercise with its financial implications.

Notwithstanding the above limitations, the study results have not been affected and thus are credible and useful for any purposes of evaluation and feedback.

1.7 Organisation of the Study

The study is organised into five chapters. Chapter one highlights the background and problem context of the study detailing the introduction, the problems statement, the objectives, the scope and the justification of the study. Chapter two centred on the review of literature on the authoritative definitions of concepts such as sustainability and MFIs. The principles of MFIs, the factors affecting the sustainability of MFIs, their roles and a conceptual framework were also contained in this chapter.

Whilst chapter three details out the systematic process used in answering the research questions and an overview of the study area, chapter four was devoted to the analysis of data.

Finally chapter five discusses the major findings from the study alongside the lessons learnt from the review of relevant literature.

CHAPTER TWO

THE PRINCIPLES AND ROLES OF MFIS, AND THE FACTORS AFFECTING THE SUSTAINABILITY OF MFIS IN GHANA

2.1 Introduction

This chapter reviews the various authoritative definitions of key terminologies contained in the research topic such as Micro Finance Institutions and sustainability and carves out working definitions for them. It as well conceptualises Micro financing in a theoretical framework. The chapter again, considers the roles of MFIs captured in a conceptual framework.

2.2 Definition of Key Terminologies

2.2.1 Micro Finance

According to Otero and Rhyne (1994) microfinance is the provision of financial services to low-income poor and very poor self-employed people. These financial assistances are required to catalyse the poor's ability to widen the social and economic opportunities available to them.

Similarly in the view of Steel and Andah (2004), microfinance is defined to include any small financial transactions with low income household and micro enterprises using non standard methodologies such as character-based lending, group guarantees and short term loans.

These two definitions are said to over-concentrate on financial assistance (credit) to the poor to the neglect of other assistance including skill training, savings, insurance and other forms of capacity building other than financial assistance, rendered to the poor (Adongo and Stork, 2005). The first principle of MFI that states that "poor people need a variety of financial services not just loans" is used to buttress this criticism. Additionally.

another angle of criticism is its overly concentration on the poor whilst contemporary MFI's credit policies transcend the borders of the poor.

Emanating from the above constructive criticisms, Microfinance is defined by Hagan and Martins (2004) to include financial institutions other than the traditional ones that render a wide range of financial and other complementary services (savings, insurance, money transfer, etc) to both the poor and the rich that require them (the services). This comprehensive definition covers a broader range of services such as credit, savings, insurance, money transfer etc. is premised on the background that people especially the poor and very poor, lack access to traditional formal financial institutions and require a variety of financial products to extricate them from the grips of chronic poverty and difficulty.

This study adopts Martin and Hagan's definition due to it comprehensiveness (not limited to only loans to the poor and very poor). Micro Finance Institution is thus defined to embrace financial institutions other than the traditional ones that render a wide range of financial and other complementary services (savings, insurance, money transfer, etc) to both the poor and the rich that that require them (the services).

2.2.2 The Concept of Sustainability

Just as there exist no universally accepted definition for micro finance, there is also no acceptable definition for the concept of sustainability. Several authors have defined it to reflect their academic traditions and thoughts.

In the view of the Brundtland Commission, sustainable development is development that meets the needs of the present generation without compromising the ability of future generation to meet their own needs (Brundtland, 1987). Thus sustainability of an intervention is the ability of that intervention to continue to provide quality services overtime to meet the needs of the unborn generation. This definition underpins all definitions relating to the concept of sustainability.

Similarly, Avadom (1992) defines the concept of sustainability as the extent to which projects/firm/intervention can lead to a continued growth and expansion in the economy accompanied by effective resources utilisation and employment generation. Thus the sustainability of the project calls for the ability of that project to generate resources in its right quantity and quality to enable expansion and enhancement in its service delivery over a prolonged period of time.

Valadez and Bamberger (1994), recognise sustainability as the capacity of a project to continue to deliver its intended benefits over an extended period of time. This definition is explicitly clear on sustainable development dimensions (ability to meet the needs of unborn generation). This is basically because of its dimension.

One key feature of all the definitions considered above, is the concern that sustainability has to be able to withstand a test of time and continue to render its intended benefits not only to the current generation but also to the unborn generation.

Emanating from the reviewed definitions above, sustainable development of Micro Finance Institutions through financial markets requires the long term ability to meet goals or target. For financial institutions and for firms, this requires private profitability: a return on equity and net of subsidy that exceeds the private opportunity cost of resources (Navajas et al, 1999). Besides, self-sustainability can be measured in terms of both financial sustainability (the smooth operation of financial institution with necessary profitability having adequate liquidity to overcome any challenges of bankruptcy) and economical sustainability (an easily quantifiable proxy of the impact of rural financial intermediation in lieu of a full cost-benefit analysis).

2.3 Factors Affecting MFIs Sustainability

According to Parveen (2005), several factors influence the viability and sustainability of MFIs. These factors are discussed below:

2.3.1 The Policy Environment

The favourability of the macro environment promotes the sustenance of MFIs. High amount of taxes and other demands by both central and local governments hinder the smooth operation of the firm.

2.3.2 The Institutional Sustainability

According to Parveen (2005) the institutional viability depends on factors such as the satisfaction of the employees about their welfare. Additionally, the institutional sustainability largely depends on the financial viability that in turn depends on the firm's penetration rate measured by the establishment of new branches, the growth of the number of clients and the growth in the gross loan portfolio. The other criteria include a retention rate of not less than 80 percent and a very good portfolio at risk. The ability of a firm to meet a chunk of these sustainability measuring instruments, determines its extent of viability and sustainability.

2.3.3 The Perception of Clients on the services rendered by the firm

In the view of Qayyum and Munir (2006) the level of satisfaction of clients on the services rendered by a firm largely contributes to the retention of customers. Similarly, in Praveen's contribution to this discussion, he argues that the higher the level of satisfaction of clients on the services rendered by MFIs, the greater its (the firm's) ability to attract other clients. In this light the proportion of voluntary savers as a percentage of the whole, becomes a very useful tool in measuring the firms' sustainability.

2.4 The Evolution of MFIs Sources of Funds

Microfinance had existed for centuries in various forms before the development of distinct MFIs in the 1980s after the emergence of the Grameen Bank, which developed strategies and lending techniques that influenced microfinance organisations all over the world (Bogan et. al 2007). With the lack of collateral security as a barrier that hindered the extension of financial services to poor populations, microfinance used "social capital" to overcome it. Additionally, limited information on creditworthiness that had long hindered the extension of financial services to poor populations was also remedied though social capital.

MFIs encompass a wide range of providers that vary in legal structure, mission, target area and methodology. MFIs can be classified into categories by either organisational structure - cooperatives, solidarity groups, village banks, individual contracts, and linkage models) or legal status - NGOs, cooperatives, registered banking institutions, government organizations, and projects (Bogan et. al 2007). The issue of funding is crucial to the financial sustainability of MFIs regardless of whether they operate as commercial banks, finance companies, credit unions, or non-profit organisations.

Available literature suggests that the evolution of MFI funding sources is placed within the context of an institutional life cycle theory of MFI development (de Sousa-Shields, 2004). According to this framework of analysis, most MFIs start out as NGOs with a social vision, funding operations with grants and concessional loans from donors and international financial institutions that effectively serve as the primary sources of risk capital for the microfinance sector. Thus, the literature on microfinance devotes considerable attention to this process of "NGO transformation" as a life cycle model outlining the evolution of a microfinance institution (Helms, 2006). Generally, the life cycle theory posits that the sources of financing are linked to the stages of MFI development. Donor grants and "soft" loans comprise the majority of the funding in the formative stages of the organisation. As the MFI matures, private debt capital becomes available but the debt structures have restrictive covenants and/or guarantees. According to Fehr and Hishigsuren, (2004), in the last stage of MFI evolution, traditional equity financing becomes available.

A growing number of MFIs have formalised and sought to fund growth through public deposits and thus became willing to accept banking regulation and the concomitant standards of transparency and prudential management (Bogan et. al 2007). As the institutions matured and expanded, many MFIs gradually made the transition to include commercial funding that spanned the range of risk and liquidity profiles and thus could be adjusted to match the capital structure requirements at different stages of the institutional life cycle. These changes are viewed as a general shift toward capital structures more typical of commercial financial institutions. Available evidence supports this life cycle theory, noting an increase in competition in MFIs as they increase in number and documenting a spread in regulation facilitating a change in the capital structure of the industry (Farrington and Abrams, 2002 cited in Bogan et al 2007) provide.

In some cases, MFIs receive grants and subsidised loans from development agencies to finance the transition into deposit-taking institutions, providing an example of how development assistance - the "risk capital" of MFIs – can reappear at later stages in the life cycle of these institutions (Bogan et al 2007). Funds from development agencies or NGOs may also be deployed as financial instruments designed to improve access for newly regulated entities. These instruments, such as guarantees for capital market issuances or bank loans, have newly regulated MFIs to prove creditworthiness and borrow at cheaper rates (Counts, 2005).

Funding patterns also may be influenced by other, local factors that shape institutional development. In some countries, a significant number of MFIs grew out of credit unions that traditionally focused on mobilising savings from members. Although some of these institutions may choose to become regulated entities, others may be more likely to choose a savings bank model rather than a model that is based on commercial banking.

Whereas MFIs in several Latin American countries have made progress in the transition to regulation and market funding (Jansson, 2003; Conger, 2003), unregulated and NGO structures still predominate in the Middle East, North Africa, Eastern Europe, and Central Asia. Such institutions face limitations in financing options, with no license for taking public deposits and no shareholder structure for attracting equity other than donations. In South Asia, the challenge of this transformation is evident in the requirements faced by MFIs in India. According to the Reserve Bank of India's (RBI) regulations, unless a MFI is registered as a non-banking finance company (NBFC) and obtains an investment grade rating, it is not allowed to accept fixed deposits. Hence, such MFIs are unable to access deposits even from their own members and borrowers.

In recent years, there has been increasing internal and external pressure for the MFIs to decrease dependence on subsidised or grant funding. Since donor funds are limited in amount, reliance on this source of funding limits the ability of MFIs to expand to meet rising demand for services. MFIs with access to donor funds may not respond to these pressures to operate efficiently or may deliberately choose outreach over efficiency by serving poorer or rural clients with higher delivery costs (Morduch, 1999).

2.5 The Principles of MFIs

According to Adongo and Stork (2005) the operations of MFIs all over the world are guided by the under listed principles;

- Poor people need a variety of financial services, not just loans;
- Microfinance is a powerful tool to fight poverty;

- Microfinance means building financial systems that serve the poor;
- Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people;
- Microfinance is about building permanent local financial institutions;
- Micro credit is not always the answer… and is not the best tool for everyone or every situation;
- Interest rate ceilings hurt poor people by making it harder for them to get credit;
- The role of government is to enable financial services, not to provide them directly;
- Donor funds should complement private capital, not compete with it;
- The key bottleneck is the shortage of strong institutions and managers;
- Microfinance works best when it measures—and discloses—its performance.

Inferring from these principles, MFIs are useful pro-poor interventions designed to impact positively on the living conditions of the poor through a wide range of financial services. These financial services are multidimensional in nature premising on the background that the poor requires a wide range of financial and other complementary services to realise an actualisation of his potentiality.

The principles also reiterate the need for sustenance of the MFIs in order to ensure continuity. This would prevent the tendency of the poor after witnessing an improvement in the lives, relapse into the previous situation of poverty and difficulties. Thus the principles guard against short-lived interventions that result into short-lived benefits.

Additionally MFIs are to be promoted through the creation of an enabling macro economic environment by the government. High interest rates are known to serve as a barrier against the poor from accessing financial assistance from the MFIs. Through the concerted efforts of the central government and the private sector, the interest rates are to be kept low.

2.6 Roles of MFIs

Due to inequalities arising from the world's socio-political history, improving the livelihoods of the rural population is a priority for the global community as part of its effort to increase the levels of human development evident though the Millennium development Goals. In pursuit of these goals, the provision of microfinance is a key instrument for enhancing the livelihood of low-income households in the developing countries in particular. The benefits to these households and micro-enterprises should have positive implications for the global economy. The roles of MFIs to national development are discussed under the various subheadings below;

2.6.1. Assistance to Low-income Households

Microfinance provides benefits to low-income households through various avenues. Firstly, the funds transfer facilities provided by Micro Finance Institutions enable low income households to make payments at low costs. In Namibia for example, such microfinance funds are being provided by commercial banks such as the First National Bank of Namibia. These facilities are expected to reduce the inconvenience of having to travel long distances to effect transactions.

Secondly, low-income households typically have irregular income streams and are faced with various lifecycle, structural and crisis risks that are beyond their control and can reduce their income levels below the poverty line (Wright, 1999). Empirical evidence suggests that the savings facilities provided by microfinance institutions are useful in improving household financial management, which contributes to more efficient inter-temporal decision-making. This protects low-income households against risks ahead of time, as opposed to providing support to cope with shocks after they occur through the provision of credit facilities (CGAP, 2000a).

In addition, the use of savings facilities by low-income households enables them to store funds for future use and build credit history. This is of particular importance as many low-income households lack the types of collateral acceptable by commercial banks that are required to access loans from this source of finance, as mentioned in the previous paragraph. Furthermore, the accessibility to savings facilities provides women, in many cases for the first time, the opportunity to hold their savings in their own names (Robinson, 2003).

Finally, the flexible and convenient credit facilities provided by microfinance institutions enables low-income households to borrow funds to cover emergencies that they cannot meet from their levels of current savings. In Namibia, this benefit of microfinance is also associated with micro-lenders who lend to salaried employees in the public and private sector. When provided to low-income households, these additional financial resources result in the smoothing and stabilisation of household consumption. This can reduce the poverty gap and poverty headcount, even though real income may not increase. Empirical studies in some rural areas show that the increase in the quality of life at the household level reduces child labour, since they are no longer forced to contribute to household income (Beegle et al., 2003). The resulting increase in income for low-income households can increase their self-confidence (Rahman, 1999).

2.6.2 Micro Financing

Microfinance also provides benefits to micro-enterprises through various channels. Firstly, fund transfer facilities provided by microfinance institutions also enable micro-enterprises to reduce the costs of handling payment transactions. This has positive implications for their profit levels.

Secondly, the savings facilities provided by microfinance institutions enable microenterprises to invest their surplus funds, while obtaining a return on their investments. This enables them to better manage liquidity and could increase their levels of self-financed investment. In addition, individual rights to these saving assets are legally recognised and can be used to meet collateral requirements.

Finally, the credit facilities provided by microfinance institutions enable microenterprises to borrow funds to cover various short-term financial needs. These needs include financial costs incurred during pre-start-up training, planning and start-up phases in the micro-enterprise life cycle. Microfinance can also be used to cover the financial costs of further training and to meet other unforeseen circumstances (Mushendami, et al. 2004). The microfinance credit facilities enable micro-enterprise owners to use anticipated income for current investment. This reduces the vulnerability of the micro-enterprise to various shocks and stabilises the income stream for the micro entrepreneur. The reduced vulnerability promotes the sustainability of the micro-enterprise at its existing levels, to the extent that this credit is used to acquire capital (physical or human), which yields a rate of return in excess of the cost of credit.

Micro-enterprises are typically labour-intensive and are defined as employing 1 to 9 additional people in marginal areas (ICEG, 1999a). In a non-representative sample of 337 SMEs in Namibia, 49 percent employed 2 to 5 additional employees, while 22 percent employed 1 additional employee. However, only 5 percent employed additional 6 to 10 employees (Grossman, Mwatotele, Stork & Tobias, 2005).

2.6.3. Macro Economy

The benefits that microfinance provides to low-income households and microenterprises have positive implications for the overall economy. Firstly, the provision of savings facilities deepens financial markets by mobilising savings that were not previously part of the money supply. In addition to the savings that are stored by low-income households and micro-enterprises in informal markets, some cases exist where microfinance institutions attract the finances of informal money lenders into the formal financial sector, as in the case of SAFESAVE, a microfinance institution in Bangladesh (CGAP, 2000b cited in Bogan, 2007). This increase in gross savings creates a larger pool of resources that can be channelled to gross domestic investment opportunities, which has positive implications for economic growth.

Secondly, the increase in savings flowing into microfinance institutions increases the amount of credit available. This can lower the cost of loans relative to those offered by informal moneylenders. The benefit of this credit in reducing vulnerability in low income households and micro-enterprises increases productivity and income. This reduces income inequalities in an economy, which has positive implications for human development initiatives. Pitt and Khandker (1998), in a study that defined households by land ownership in Bangladeshi villages, found that incomes of those admitted to a microfinance programme rose to the level of those who had been excluded (who were in higher income households by its design) (Bogan et al, 2007).

Finally, microfinance is instrumental in promoting the sustainability of microenterprises, to the extent that it creates an improvement in the management of their financial activities. This should lead to the strengthening of the domestic production structure, which has positive implications for balanced development across different sectors and regions (ICEG, 1999b).

2.7 Micro Finance in Ghana

2.7.1 Evolution

The concept of Micro Finance is not a latest phenomenon in Ghana. Traditionally, people have saved with and taken small loans from individuals and groups within the context of self-help to start businesses or other ventures. Available evidence suggests that the first Credit Union in Africa was established in Northern Ghana in 1955 by the Canadian Catholic Missionaries (World Bank, 2004). Susu, which is one of the current microfinance methodologies, is thought to have originated from Nigeria and spread to Ghana in the early 1990s.

In the view of Littlefield et al (2003) micro finance worldwide with Ghana as not an exception, has gone through four (4) distinct phases. These stages are described below:

Phase One

The provision of subsidised credit by Governments starting in the 1950's when it was assumed that the lack of money was the ultimate hindrance to the elimination of poverty. This phase was not successful and could not impact positively on the poor due to the principle that sates that "poor people need a variety of financial services, not just loans". Thus the failure of this phase to give credence to the other complementary assistance such as savings, skills training, etc. rendered this phase ineffective.

Phase Two

This phase involved the provision of micro credit mainly through NGOs to the poor in the 1960's and 1970's. During this period sustainability and financial self-sufficiency were still not considered important. This phase overly depended on foreign assistance without considering its revitalisation for efficiency and effectiveness.

Phase Three

In the 1990's the formalisation of Microfinance Institutions (MFIs) began. This is the phase prior to commercialisation of the MFIs. The phase centred on the acquisition of the legislations backing their operations and their formalisation.

Phase Four

This phase is traced to the mid 1990's when MFIs witnessed commercialisation and subsequently gained prominence. MFIs were thus mainstreamed into the financial sector and are now seen as a sub-sector of the financial sector, comprising most different financial institutions which use a particular financial method to reach the poor.

2.7.2 The Financial System in Ghana

The financial system in Ghana falls into three main categories: formal, semi-formal, and informal:

2.7.2.1 Formal Financial Institutions

The Formal Financial Institutions are those that are incorporated under the Companies Code, 1963 (Act 179), which gives them legal identities as limited liability companies, and subsequently licensed by the Bank of Ghana (BOG) under either the Banking Act, 2004 (Act 673) or the Financial Institutions (Non-Banking) Law 1993 (PNDCL 328) to provide financial services under Bank of Ghana regulation. Most of the banks target urban middle-income and high-net worth clients. RCBs operate as commercial banks under the Banking Act, except that they cannot undertake foreign exchange operations, their clientele is drawn from their local catchment area, and their minimum capital requirement is significantly lower. Some collaborate with NGOs using micro finance methodologies. Among the nine specified categories of non-bank financial institutions (NBFIs), the savings and loans companies, which are restricted to a limited range of services, are most active in micro and small-scale financial intermediation using microfinance methodologies.

2.7.2.2 The Semi-formal system

The semi-formal system comprises the NGO's and the Credit Unions. These institutions are formally registered but are not licensed by the Bank of Ghana. NGO's are incorporated as companies limited by guarantee (non-profit-making) under the Companies Code, 1963 (Act 179). Their focus on poverty makes them penetrate deeply into rural communities to serve poor clients through the use of microfinance methodologies, though mostly on a limited scale. They are not licensed to take deposits from the public and hence rely on external (usually donor) funds for microcredit. Credit Unions are registered by the Department of Co-operatives as co-operative thrift societies that can accept deposits from and grant loans to their members only. Although credit unions are included in the NBFI Law, BOG has allowed the apex body Ghana Co-operative Credit Union Association to continue to regulate the societies pending the introduction of a new Credit Union Law.

2.7.2.3 The Informal financial system

The informal financial system covers a range of activities known as Susu, including individual savings collectors, rotating savings and credit associations, and savings and credit "clubs" run by an operator. It also includes money lenders, trade creditors, self-help groups, and personal loans from friends and relatives. Moneylenders are supposed to be licensed by the police under Money lenders' Ordinance 1957.

2.7.3 The Structure and Key Stakeholders of Microfinance in Ghana

The key Micro Finance Institutions comprise a wide range of categories. In view of this the stakeholders in the micro finance sub sector. The World Bank (2004) identifies the following as the major stakeholders:

2.7.3.1 Micro Finance Institutions

The first category of stakeholders in the micro finance subsector is the Micro Finance Institutions. Microfinance Institutions comprise of the savings and loans companies, the rural and community banks, the financial NGOs, primary societies of CUA and susu collectors association of GCSCA. The others are development and commercial banks with microfinance programmes and linkages and the micro-insurance and micro-leasing services.

2.7.3.2 Microfinance Apex Bodies

The second category of stakeholders in the micro finance subsector includes the Association of Rural Banks (ARB), ARB Apex Bank, Association of Financial NGOs, (ASSFIN), Ghana Cooperative Credit Unions Association (CUA) and Ghana Cooperative Susu Collectors Association (GCSCA).

2.7.3.3. End Users

The next category of stakeholders is the economically active poor who are clients of microfinance products and services. This category of stakeholders is the targeted beneficiaries of the interventions of MFIs. They are thus described as the end users.

2.7.3.4. Technical Service Providers

The Technical Service Providers provide technical services such as consultancy and other capacity building services to the MFIs. They render Business Development Service to MFIs and their clients.

2.7.3.5. Supporting Institutions

This category of institutions is established to complement the operations of the MFIs in Ghana. They include MASLOC, GHAMFIN, the development partners and international non-governmental organisations as well as universities, training and research institutions.

2.7.3.6 Government Institutions

The effectiveness and efficiency of the operations of MFIs largely depends on the macro economy (Adongo and Stork, 2005). In this direction, the MDAs and MMDAs have been established to regulate the macro economic environment for the mutual benefit of the MFIs and their clients.

2.7.4 Micro Finance Institutions' Clients in Ghana

According to World Bank (1999), the clients of Micro Finance Institutions are predominantly women in both rural and urban centres. These women are engaged in activities such as farming, food processing, petty trading, service provision and street vending. They are typically self-employed, often household-based entrepreneurs. The typical microfinance clients are low-income persons that do not have access to formal financial institutions.

In the rural areas, the clients are usually small farmers and others who are engaged in small income-generating activities such as food processing and petty trading. In urban areas, microfinance activities are more diverse and include shopkeepers, service providers, artisans, street vendors, etc.

Access to conventional formal financial institutions, for many reasons, is inversely related to income: the poorer you are the less likely that you have access (ibid). The poor thus obtain financial services from informal financial relationships. Credit can be available from commercial and non-commercial lenders, but often at very high interest rates.

In the view of World Bank (2000) Micro Finance Institutions generally target poor women because they have proven to be reliable and given the financial assistance, they invest it back into their families, resulting in better health and education, and stronger local economies. Studies have shown that women become more assertive and confident, have increased mobility, are more visible in their communities and play stronger roles in decision making process with the assistance from MFIs (ibid).

From the foregoing, MFIs have proven to be poverty reduction instruments that widen the socio-economic opportunities available to clients that are dominated by women. This correlates well with the MGDs (especially MDG 1,2,3,4,5 and 6 as seen from figure 2.1)

2.7.5 Successes and Challenges of Micro Finance Institutions in Ghana

2.7.5.1 Successes

MFIs in Ghana have made some remarkable strides in the country, especially within the private sector. Among these achievements are as follows.

Provision of Working Capital

According to Churchill the introduction of micro financing into the country has made it possible for operators of small businesses to access credit facility which hitherto was due to difficult modalities by the formal financial institutions (cumbersome documentation and collateral). Even though the amounts involved are modest, it supports small businesses to a large extent (Churchill, 2000).

Provision of Employment

Microfinance provides people with capital to start and/or expand their businesses. Small businesses with microfinance support have grown into medium enterprises creating employment opportunities for others. In a study by Snodgrass et al (2002) between 5 and 7 extra hands have been employed by operators of small businesses after accessing loans from MFIs.

Capacity Building

Micro finance projects and programmes have contributed immensely towards the capacity building of clients in the areas of loan management, customer care, pricing, marketing and selling on credit as well as social and community issues. This is seen as a feat in view of Battese et al. (2000) assertion that the quality of a country's labour force determines the level and pace of development.

Community Development

In the view of Battese et al (2000) MFIs have contributed to community development in several dimensions. Through their corporate social responsibilities, MFIs have helped communities to have access to socio-economic infrastructure. Additionally, their economic empowerment programmes have also increased the ability of community members to contribute to local initiatives through direct decision making and contribution in terms of finance.

2.7.5.2 Challenges

Lack of Policy Direction

Generally, since the beginning of government involvement in microfinance in the 1950s, the sub-sector has operated without specific policy guidelines and goals. This partially accounts for the slow growth of the sub-sector, and the apparent lack of direction, fragmentation and lack of coordination. There has so far not been a coherent approach to dealing with the constraints facing the sub-sector. The constraints include the inappropriate institutional arrangements, poor regulatory environment, inadequate capacities, lack of coordination and collaboration, poor institutional linkages, and no specific set of criteria developed to categorise beneficiaries. The others are problems with channelling of funds by MDAs, lack of linkages between formal and informal financial institutions, inadequate skills and professionalism, and inadequate capital. Better coordination and collaboration among key stakeholders including the development partners, government and other agencies, could help to better integrate microfinance with the development of the overall financial sector.

Problems with the Traditional Commercial Banking Approach

The traditional commercial banking approach to microfinance delivery often does not work. According to traditional commercial banking principles, the credit methodology requires documentary evidence, long-standing bank-customer relationship and collateral, which most micro and small businesses do not possess. The commercial banking system, which has about twenty-three (23) major banks, reaches only about 5 percent of households and captures 40 percent of money supply. Therefore, there is room for expanding the microfinance sector in Ghana.

Non Extension of Appropriate Regulation

Whilst Ghana has reasonably diversified and supervised regulatory framework for formal financial institutions licensed by BoG, there is concern that appropriate regulation needs to be extended to other institutions operating in the micro finance sub-sector (for example the legal framework for credit unions) in order to improve the outreach, sustainability and efficiency of savings, facilitate credit delivery, and institutional arrangements.

2.8 Conceptual Framework for Micro Financing

2.8.1 Theoretical Underpinning of MFIs; cases of some Micro Finance Models

Micro finance advocates two main ways (the financial systems approach and the poverty lending approach) of improving livelihoods as the result of poverty reduction interventions. These two main ways are said to be the theories/models underlining all MFIs that seek to reduce poverty and bridge the inequality dichotomy between the rich and the poor.

These two approaches complement each other to improve access to financial services based on self-help, community-based groups that also make available a forum that enables interaction for social purposes (Holt, 1994 cited in Adongo and Stork, 2005). Thus these mutual supports form a basis for building local capacity to manage MFIs in a participatory manner with the hopes of inspiring similar target groups in other areas.

2.8.1.1 Financial Systems Approach

The financial systems approach aims to achieve maximum outreach of micro finance services through financially sustainable institutions that focus on a financial intermediation model (Robinson, 2003 cited in Adongo and Stork, 2008)). The MFIs under this approach provide finance to the public e.g. commercial banks; or serve only their members e.g. village banks. They finance their loan portfolios from locally mobilised savings, commercial debt and for-profit investment, or retained earnings such as micro-lenders.

MFIs under this approach are differentiated from informal money lenders, from unregulated institutions such as NGOs that are not registered, and from subsidised formal micro credit where a regulated institution such as a state-owned bank channels government or donor funds to borrowers at subsidised interest rates (Robinson, 2003).

The proponents of the financial systems approach argue that donors and governments should shift the allocation of their scarce resources from direct financing of loan portfolios, to promoting the replication of this model by disseminating lessons from the best practices of fully sustainable MFIs and financing the development of more microfinance institutions of this type (Adongo and Stork, 2005). One challenge of the financial systems approach however is its reliance on market approaches, which may be thin and weak in marginal areas (Pralahad, 2004). However, even in these areas, market solutions can be found to overcome any obstacles (Hitchins, Elliot & Gibson, 2005).

2.8.1.2 Poverty Lending Approach

The poverty lending approach focuses on reaching the poorest of the poor, who are typically engaged in pre-entrepreneurial activities that are more focused on consumption-smoothing than productivity enhancing activities (Honohan, 2004). This group requires assistance in the form of income transfers to meet their basic needs, because any credit extended to them will most probably be consumed rather than invested in something that generates a return sufficient to repay the debt (Rosengard, 2001).

The poverty lending approach differs from the financial services model characterised by the financial systems approach. In addition to micro finance services, it provides ancillary services such as training on nutrition, better farming techniques, family planning, health and basic financial management skills aimed at reducing the target group's vulnerability to avoidable risk. The funding for these ancillary services is typically provided by governments, donor grants and other subsidised funds.

In the past, loan portfolios used to be funded by donors and governments and loan provision was subsidised at below market interest rates (Adongo and Stork, 2005). However, the use of 'forced savings' has reduced the extent to which donors and governments are required to fund loan portfolios, even if the micro finance target group is not able to save, initially.

Finally, practices have been adopted to ensure that the provision of ancillary services that target those in the pre-entrepreneurial group is done without compromising the financial sustainability of the microfinance function of the institution. This is done by making a clear distinction between the funds allocated to the provision of microfinance, and those allocated towards the provision of ancillary services. Member savings are used to fund the former, while government and donors support is used to fund the latter.

The micro finance subsector in Ghana is underpinned by the two models discussed above. The formal financial institutions are underpinned largely by the financial systems approach whilst the semi formal system and the informal system are governed by a combination of both financial systems and the poverty lending approaches.

2.8.2 The Link between MFIs and Poverty Reduction

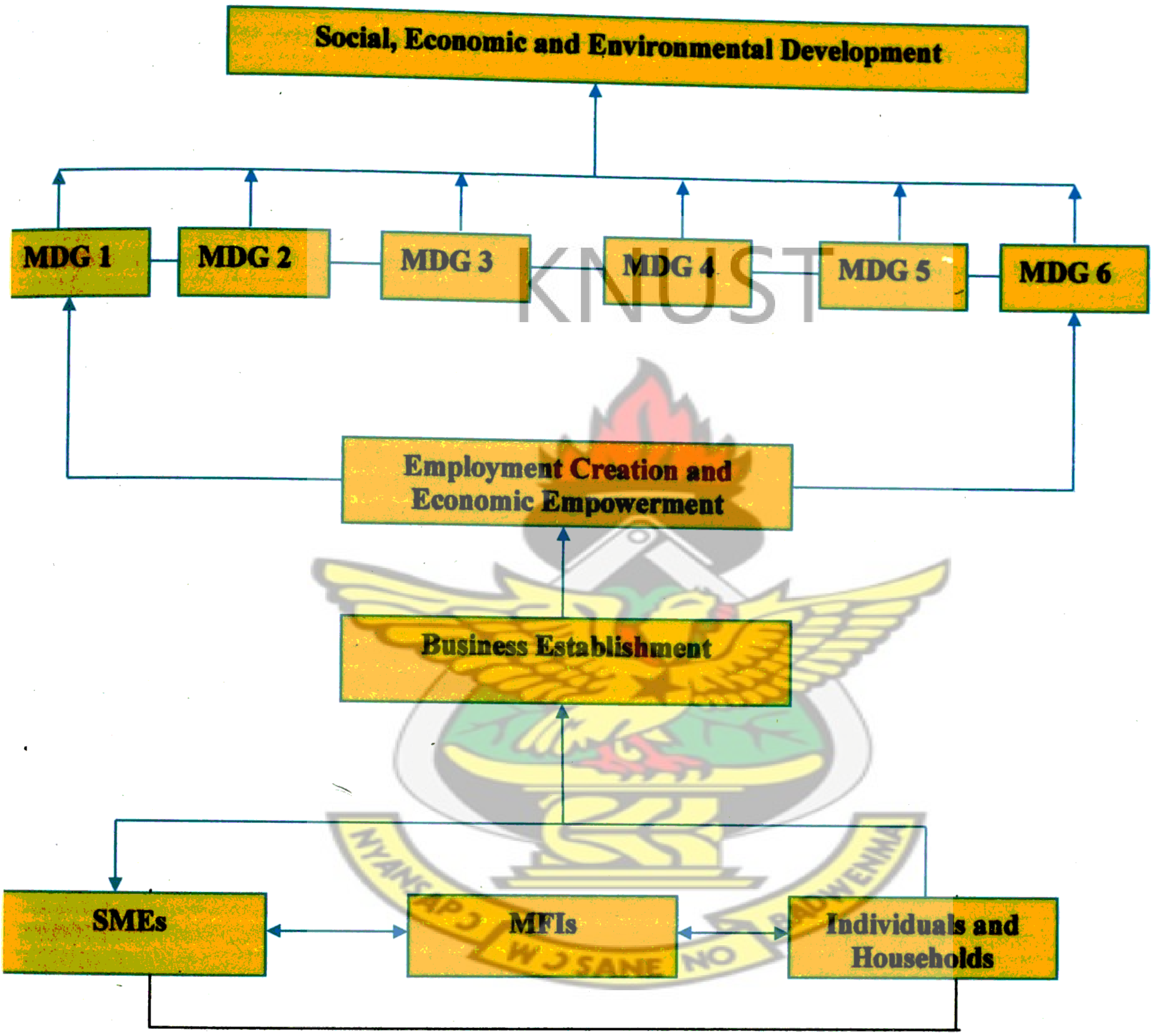
According to the 2000 Population and Housing Census, 80 percent of the working populations are found in the private informal sector. This group is characterised by lack of access to credit, which constraints the development and growth of that sector of the economy. Clearly, access to financial services is imperative for the development of the informal sector and also helps to mop up excess liquidity through savings that can be made available as investment capital for national development. These can contribute largely towards a "sustainable equitable growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralised, democratic environment" – the goal of Ghana GPRS II.

Trends in loans and advances extended to small businesses, individuals and groups by the Non-Bank Financial Institutions (NBFIs) in Ghana amounted to GH¢50.97 million in 2002 as against GH¢39.64 million in 2001, indicating about 28.6 percent growth. The amount of loans further increased from GH¢70.63 million in 2003 to GH¢72.85 million in 2004, representing 3.1 percent growth. In 2006, a total of GH¢160.47 million was extended to clients, representing 48.8 percent higher than that of the previous year.

The Rural and Community banks have also played a very crucial role in micro finance in the Ghana. These banks were established specifically to advance loans to small enterprises, farmers, individuals and others within their catchment areas. Total loans advanced to clients by all community and rural banks in Ghana was GH¢20.68 million in 2002 compared to GH¢13.12 million in 2001, representing an increase of 57.62 percent. The amount of loans further increased from GH¢71.63 million in 2005 to GH¢115.10 million in 2006, representing a percentage increase of 60.7.

The upward- trend of credit to individuals, small businesses, groups and others indicates marked improvements in level of microfinance in the country. The loans advanced by MFIs are normally for purposes such as housing, petty trading, and as "start up" loans for farmers to buy inputs for farming and this includes rice seeds, fertilizers and other agricultural tools. Some of the loans are used for a variety of non-crop activities such as: dairy cow rising, cattle fattening, poultry farming, weaving, basket making, leasing farm and other capital machinery and woodworking.

Figure 2.1: Conceptual Model Detailing the Pivotal Role played by MFIs to Poverty Reduction



Source: Author's Construct, 2009

Figure 2.1 is conceptualised from the Littlefield et al. (2003) argument that MFIs are effective tools for poverty reduction using the MDGs as the benchmarks for measuring success. The figure depicts an intermediation role played by MFIs similar to that of the mainstream banking.

MFIs supply households and SMES with loans for both business establishment and expansion. The establishment of MFIs also creates direct employment for members of households and the public. These pivotal roles depict that MFIs contribution to the economy is immense.

With the establishment of businesses, economic empowerment of individuals is enhanced with its rippling effects on social indicators of human wellbeing. With employment, the proportion of people living in extreme poverty and hunger would be reduced. This will seek to reinforce and contribute to the achievement of the renewed global agenda for fighting poverty particularly in the third world. The figure highlights that, economic empowerment has implications for the reduction of extreme poverty and hunger by 2015 (MDG1). Households who have witnessed the benefits accruing from economic empowerment will be able to finance the education of their wards (MDG2).

In view of the fact that MFIs target women in their operation, their financial intermediation role also has implications for the promotion of gender equality and promotion of women (MDG3). With women empowerment, maternal health would be promoted and child mortality reduced (MDGs 4 and 5).

With busy schedules, promiscuity and other sexual related issues could be relegated to the background; this could hep check the incidence of HIV/AIDS and other diseases. With the perception that poverty begets environmental degradation, the figure indicates that environmental degradation may be halted. The MDGs are thus used as the benchmark for measuring poverty. These would thus lead to the attainment of social, economic and environmental development.

2.10 Lessons Learnt from the Literature

The literature has highlighted the pivotal role played by MFIs to the central and local economy. The research learnt that MFIs are financial institutions other than the traditional ones that render a wide range of financial and other complementary services to both the rich and the poor. Emanating from the definition, the contribution of MFIs to poverty reduction is key. The literature identified that MFIs promote growth by reducing the dichotomy between the rich and the poor. Financial assistance is also rendered to households and SMEs in support of the central and local governments' roles.

In view of the instrumental roles being played by the MFIs, their sustainability becomes an issue of grave concern. However, the sub-sector's viability is constrained by the lack of policy direction and the non-extension of appropriate regulation which have to be looked at.

CHAPTER THREE

METHODOLOGY AND PROFILE OF THE STUDY AREA AND FIRM

3.1 Introduction

This chapter details the methodology employed in eliciting the required responses to complete the study. It sheds light on the research design and its appropriateness, the sampling techniques and sample size determination, the method of data collection as well as the method of data analysis. The key variables used in assessing the impact of the projects are also indicated in the chapter.

3.2 Research Design

In the view of Frankfort-Nachmias and Nachmias, (1996), a case study design is very useful in investigating a contemporary phenomenon. Additionally, studies intending to apply the principle of inter-subjectivity will find the case study design very useful for the purpose of the research.

Similarly, in the view of Kumekpor (2002), case study research designs provide useful insights in a research activity. The results of a carefully carried out case study research tally well with what the outcome of the research would have been if the total population were considered. The study based on the above authoritative descriptions of and arguments for case study, particularly on the fact that time were a grave limitation in the study, the Opportunity International Savings and Loans was used for the study. The insights gained may be useful for other equally important purposes.

3.3 Sampling Techniques

Frankfort-Nachmias and Nachmias, (1996) argue that it is often impossible, impractical or extremely expensive to collect data from all the potential units of analysis covered by a research. Kumekpor (2004) also asserts that enumeration of any kind involves resources, time and organisation which in most cases are beyond the means of the researcher concerned. Despite these limitations, researchers can draw precise inferences on all the units based on a relatively small number of units when the subsets accurately represent the relevant attributes of the whole set.

It is in these lights that this research carefully selected 35 staff of all the three branches of Opportunity International Savings and Loans Limited and clients for the study as indicated in table 3.1.

3.3.1 Sample Population

The sample population was diverse under the study in view of the fact that different categories of clients have been assisted by the firm. The sample population was thus the different categories of economic actors including vegetable sellers, light industrialists, maize sellers, shop owners, etc that on individual basis, have benefitted from the firm's intervention.

Small and Medium Scale Enterprises with reference to schools and licensed chemical shops were considered. Additionally, the sample population for the employed staff of the firm comprised of the total number of Loan Officers and Operational Staff.

3.3.2 Sample Frame and Sample Size

The sample frame is the list of all sample units in the population. In this study the sample frame for the study was the list of economic actors that have benefitted from Opportunity International Savings and Loans Limited's interventions. The study was however limited by the inability to lay hands on the number of beneficiaries.

The study used questionnaires that comprised of both structured and unstructured questions to interview 240 individuals, 10 SMEs and 1 group. Additionally a total of 35 staff was interviewed for the study. In all a total of 286 respondents were carefully interviewed for the study. It is worthwhile to state that non-beneficiaries from the credit policy and any other credit policy were considered to catalyse attribution that was employed in the analysis as seen from table 3.1.

Table 3.1: The Sample Fame and Sample Size

Category		Number	Number Interviewed
Individual	Yam Sellers	n.a.	20 beneficiaries and 20 non beneficiaries
	Hairdressers	n.a.	20 beneficiaries and 20 non beneficiaries
	Vegetable sellers	n.a.	20 beneficiaries and 20 non beneficiaries
	Auto mechanics	n.a.	30 beneficiaries and 30 non-beneficiaries
	Shop owners	n.a.	10 beneficiaries and 10 non-beneficiaries
	Maize sellers	n.a.	20 beneficiaries and 20 non-beneficiaries
Group	Petty traders	n.a.	1
SMEs	Schools	n.a.	5
	Chemical Shops	n.a.	5
Staff	Credit (Loan Officers)	90	20
	Operational Staff	25	15

Source: Author's Construct, 2009

3.3.3 Unit of Analysis

In a case study approach, units of analysis refer to the institutions, organisations and issues about which conclusions are drawn (Inkoom, 1999). In this study, the units of analysis are the Opportunity International Savings and Loans Limited (credit staff and operational staff) and Clients (individual borrowers, group borrowers and SMEs),

The petty traders and SMEs were interviewed in view of the fact that their satisfaction with the firm's credit policy would create a continuum regarding business transaction. This in turn has implications for the sustainability of the firm. The welfare of the employed staff is also taken as a factor in the equation of productivity. In this regard, the study carefully selected employed staff to access their level of satisfaction.

3.3.4 Sampling Procedure

Two major sampling techniques were used. Due to the numerous petty traders and other economic activity in the metropolis that are similar to the activities of the clients, purposive sampling technique was used. Yam sellers, vegetable sellers, lights industrialists, etc. that have benefited from the loan facility were interviewed to examine their level of satisfaction regarding the firm's policy.

Similarly, 1 beneficiary group was also purposively sampled and information solicited from them through the focus group discussion methodology. Additionally, the simple random sampling technique was used to sample the number of employed staff. This was based on their availability and the premise that each of them was capable of answering the questions to enable useful insights to be drawn.

3.3.5 Data and their Sources

In this study, two main data collection tools were employed for empirical data; these are direct observation and questionnaire. Secondary data from existing literature were also used to complement the empirical data.

(i) Direct Observation

Direct observations were made at places where direct contacts with beneficiaries of the projects were possible.

(ii) Questionnaire

This is the key tool for the data collection in this study. Questionnaires and interview guides were designed for respondents to give their opinions regarding the benefits derived from the firm's policies. This method was necessary due to its ability to gather efficient information for both quantitative and qualitative analysis (Kontey 2000).

3.4 Data Analysis

3.4.1 Method of Data Analysis

The data obtained during the survey were analysed using both qualitative and quantitative techniques. Whilst the quantitative analysis centred on the use of statistical data such as the measures of central tendency, product moment correlation coefficient and coefficient of determination, the qualitative analysis gave more insights to the quantitative analysis from the subject under study's perspective. Since both methods have some biases, using both types of analytical styles helped to avoid biases in that, each method was used to check the other.

3.4.2 Key Data Variables for the Research

A variable is an empirical property which can take on two or more values. Variables therefore help in moving a research from conceptual to empirical levels, using the variables as key elements of the research problem (Frankfort- Nachmias and Nachmias, 1996). If a property can change either in quality or quantity, it can be termed a variable in a research (Kumekpor, 2002).

In this research, the key variables were derived from the definition of terms such as poverty and measurable characteristics of poverty. Again, previous studies by authorities such as Parveen (2005), Adongo and Stork (2005) and Qayyum and Munir (2006) helped in deriving the variables:

Quantitative:

<u>The Firm</u>

- New branch establishment
- Trend in the number of borrowers/clients
- Trend in members and voluntary savings
- Number of Employees
- Loan disbursement
- Recovery rate
- Profit after tax
- Portfolio at risk (more than 1 day and more than 30 days)

<u>Clients</u>

- Employment of labour before and after receipt of the credit
- Income level (initial capital and profits) of the clients
- Profits/losses of the firm

Qualitative:

<u>Firm</u>

- Governance strategy
- Welfare of employees
- Labour attrition

<u>Clients</u>

- Reasons for acquiring the loan
- Perception about the interest rates
- Perception about other services rendered by the firm
- Benefits of the credit

These variables serve as the basis for assessing the sustainability of Opportunity international Savings and Loans Limited (OISL).

3.5 Profile of Kumasi Metropolis – the study Area

Kumasi was founded in the 1680's by King Osei Tutu to serve as the capital of the Asante Kingdom. Given its strategic location and political dominance, Kumasi as a matter of course, developed into a major commercial centre with all major routes converging on it. This strategic location has had implications on the growth of the city in terms of population size.

Kumasi is a rapidly growing city with an annual growth rate of 5.47 percent, about 100 percent higher than the national growth rate of 2.70 percent. It encompasses about 90 suburbs, many of which were absorbed into it as a result of the process of growth and physical expansion as seen from figure 3.1. The 2000 population census kept the population at 1,170,270 with an estimated population figure of 1,889,934 by 2009.

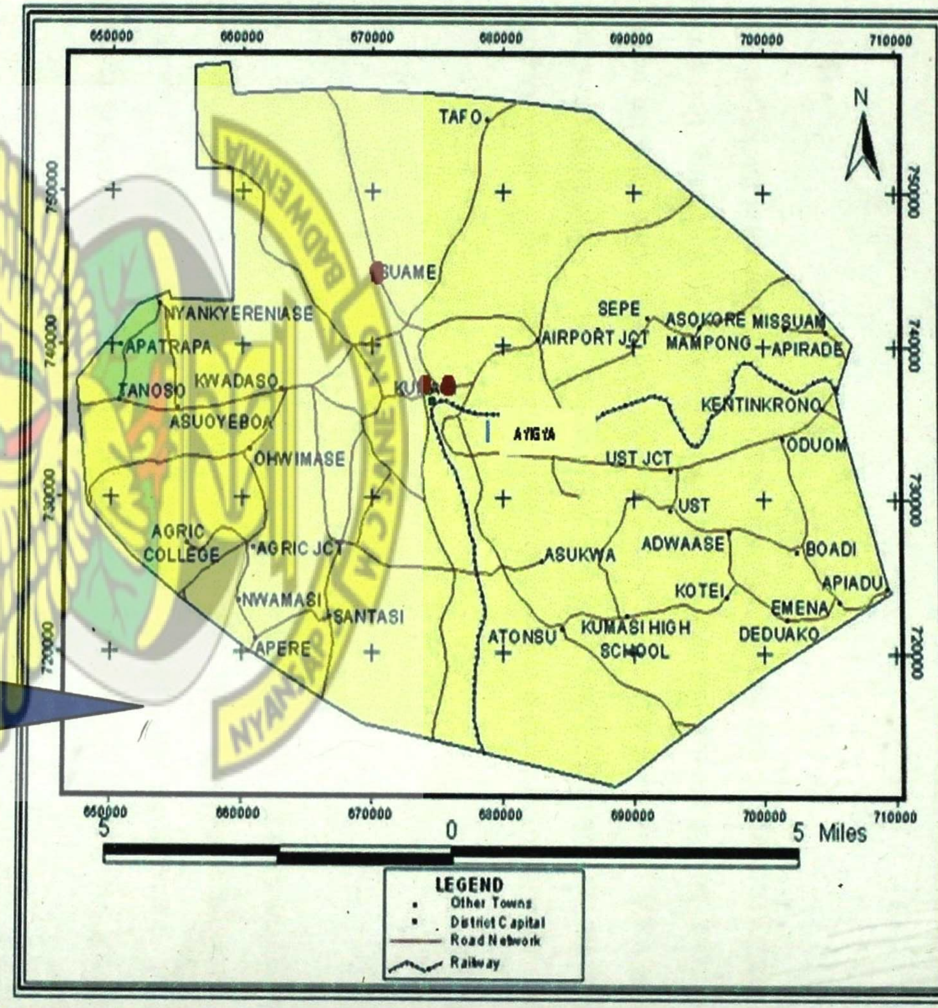
The rapidly growing population has implications for commercial activities by providing market for goods and services produced in the metropolis. This in turn affects the viability and sustainability of MFIs through the demand for credit for business establishment and expansion to meet the growing demands for goods and services.

The Kumasi Metropolis is made up of the formal and the informal sectors. The Formal sector is characterised by businesses with corporate ownership, large-scale operation, capital–intensive and the use of sophisticated technology and the good access to infrastructure and land. The major sectors of the economy fall under Trade/Commerce/Services which accounts for about 71 percent, Manufacturing/Industry which takes up of 24 per cent and the Primary Production sector which takes only 5 per cent. (KMA Medium Term Development Plan, 2006-2009). The service sector and most especially the commercial sub sector have implications on the sustainability of MFIs in the metropolis because of the continued need for financial assistance foı business establishment and expansion.

Figure 3.1a: Ashanti Region in the National Context

Source: Adjeapong, 2009

Figure 3.1b: Kumasi in the Regional Context



Source: Ashanti Regional Coordinating Council, 2009

3.6 Organisational Profile

3.6.1 Overview

Opportunity International Savings and Loans Limited (OI-SAL) is a non-bank financial institution licensed by the Central Bank of Ghana (BoG) on July, 2004 to operate as a savings and loans company. The Company serves micro and small entrepreneurs with loans, deposits, and other financial services.

Opportunity International Savings and Loans Limited is a partner member of Opportunity International Network (OIN), an ecumenical Christian economic development organisation with 42 partners operating in Africa, Asia, Europe, Latin America and North America. The Opportunity International Network is a global coalition of microfinance organisations, which provide transformational microfinance services to over 340,000 poor entrepreneurs in 27 countries in Africa.

3.6.2 Vision, Mission and Core Values

Vision

The vision of the firm is to "see the lives of micro and small entrepreneurs transformed through a partnership in which they provide customer-focused financial and transformational services". This vision is in tandem with the assertion that MFIs are effective instruments for bridging the inequality between the rich and the poor.

Mission

The firm's mission is to serve micro and small entrepreneurs with loans, deposits and other financial services that enable them to increase their income and help transform their lives while earning appropriate returns for their shareholders. This mission referring to what the firm has been established for, is directed towards widening the social and political empowerment of the beneficiaries through multiple financial packages.

Products and Services

The Company offers group loans, individual loans and loans for small and Medium Sized Enterprises (SMEs). Deposit services include regular savings accounts, current accounts, time deposits, and Susu savings. School loans have enjoyed high patronage and other regular personal loans are in high demand. OIS&L also offer micro-insurance products in partnership with Opportunity Micro Insurers and remittance services through Western Union Financial Services.

CHAPTER FOUR
ANALYSIS AND PRESENTATION OF FINDINGS OF THE STUDY

4.1 Introduction

This chapter analyses the data collected from the field. It first examines the sustainability (financial and institutional sustainability and viability) of the company. The impact of the credit policy on the operations of the clients was also examined by the study. Following the impact assessment, the clients' perception about the policies of the firms from the perspective of clients was examined. The chapter finally examines the challenges hindering the firm from being viable and sustainable.

4.2 Assessment of the Viability and Sustainability of the Firm

4.2.1 Leadership and Decentralisation – Governance system

The practice at the Opportunity International Savings and Loans Limited can just be termed as centralisation and not decentralisation - the ideal means of ensuring sustainability of the firms (Parveen, 2009). Managers and other officers of the relevant bank branches are not allowed to plan, organise and implement investment and other programmes in the name of the firm. All decisions are taken and approved by the Senior Management. This holds back decision taking in times of emergency as well as serving as a counter to innovation. Due to the uniqueness of operational areas, the ideal practice should have been decentralisation where branch managers could plan, organise and implement some local decisions in the name of the bank to enhance performance. Thus some decisions could have been taken from the branch level to reflect the uniqueness of the branches.

4.2.2 Staff Welfare and Training

4.2.2.1 Staff Welfare

In the view of Adongo and Stork (2005), the welfare of staff of MFIs and any other institution is one of the paramount factors that determine their sustainability. It is against this background that the welfare of the personnel employed with the Opportunity International Savings and Loans Limited was considered. The study identified that all (100 percent) and 80 percent of the Credit Officers and Operational Staff respectively were dissatisfied with their conditions of service. The most recurring of all the complaints cited was that "hard work is not recognised by management".

The study further identified a high attrition of staff (turnover) cutting across all levels. At the Kejetia Branch of the firm, management receives a resignation letter tendered in by an official almost every month. The study examining staff retention identified that only 25 percent and 50 percent of Credit Officers and Operational Staff respectively have worked for more than 4 years with the firm. This high turnover rate is blamed on the failure of management to recognise staff welfare as a priority. Additionally, none of the personnel interviewed was willing to continue working with the firm for the next two years.

4.2.2.2 Training

The quality of labour is one of the factors influencing his productivity. Due to this the firm has employed Credit Staff with a minimum qualification of a diploma. The basic eligibility requirement to be employed as an Operational Staff is a first degree in finance and a related field of study. Staff number has increased from 95 at the commencement of operation to 555, a percentage increase of 484.2 percent, an annual change of 96.8 percent.

Despite this numerical increase, about 75 percent of the staff have not undergone any refresher and on-the-job trainings organised by the firm to enhance productivity apart from the induction they were taken through. According to Parveen (2009), lack of refresher and on-the-job training counter every attempt at institutional sustainability. This is explained through the lack of innovation and ingenuity hindering production and productivity.

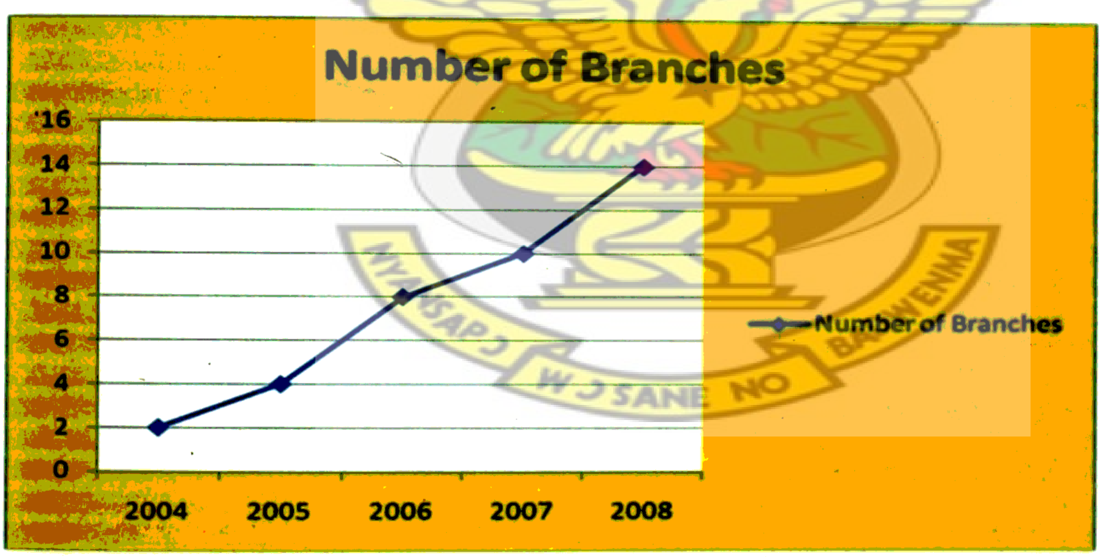
4.3 Degree of Expansion of the Firm – Penetration Rate

The penetration rate measures outreach through number of annual growth rate of loan portfolio, members' savings, number of branches and staff (Parveen, 2009). The growth rate of these indicators will give a clear picture of outreach of the target borrowers, whether the borrowers' economic situation is increasing/changing or not, a prerequisite for sustainability of the firm.

4.3.1 Number of Branches

In the view of Parveen (2009), the ability of firms to expand by establishing branches determines its level of penetration in the market (the higher its level of penetration in the market through the establishment of efficient branches, the greater the firm's chances of being sustained). In line with OISL's penetration rate was assessed as depicted by figure 4.1

Figure 4.1: Trend in New Branches Establishment



Source: Author's construct, 2009

The firm's penetration rate has been high averaging 38 percent per annum with the highest rate of 75 percent recorded between 2004 and 2005. The firm's total assets have increased by 317.3 percent (average annual increase of 63.5 percent) alongside its 38 percent increase in the number of branches evident in appendix 2. This high penetration rate is an indication of how well the firm is gaining grounds in the economy.

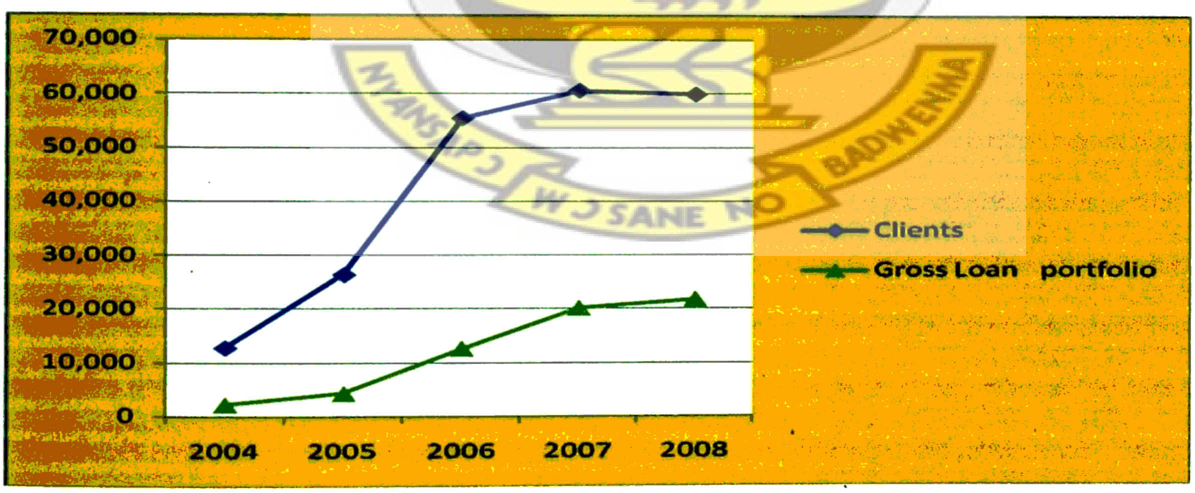
4.2.3 Financial Viability and Sustainability Analysis

4.2.3.1 Clients Numbers, Borrowing and Savings

The ability of firms to be sustained largely depends on their growing market size. In this line the study sought to examine the firm's clients numbers linked to the gross loan portfolio.

The study identified that the number of clients has increased by 371.2 percent between 2004 and 2008 representing an annual increase of 74 percent. Similarly, Gross loan portfolio has increased from US$2,217,100 to US$ 21,736,000 representing an annual growth rate and percentage change of 0.4 percent and 220 percent respectively reflecting a positive growth as depicted by figure 4.2.

Figure 4.2: Relationship between a change in number of clients and gross loan portfolio



Source: Author's construct, 2009

In establishing a correlation between a change in the number of clients and the resulting change in the level of gross loan portfolio, the study employed regression analysis with gross loan portfolio as the dependent variable whilst number of clients was used as the independent variable.

Table 4.1: The Relationship between Clients and Gross Loan Portfolio

	Clients (X)	Gross Loan Portfolio ('000) (Y)	XY	X^2	Y^2
	12,712	2217.1	28183775	161594944	491553241
	26,310	4,291.9	112919889	692216100	1842040561
	55,397	12,614.0	698777758	3068827609	159112996
	60,564	20,127.0	1218971628	3667998096	405096129
	59,896	21,736.0	1301899456	3587530816	472453696
Σ	**214,879**	**60,986**	**3360752506**	**11178167565**	**3370256623**

Source: Author's construct, 2009

From table 4.2, Y (gross loan portfolio) = -4161.8 + 0.38X (clients). This implies that for the gross loan portfolio to be positive, the company should have approximately 4162 clients. Thus, for the company to achieve its gross loan portfolio level of GH¢ 209,923,518 by the year 2014, it should have approximately 552,441 clients since the determining factor for the growth of the gross loan portfolio is the number of clients. Thus, a change in the number of clients results in 89 percent change in the gross loan portfolio from a coefficient of determination of 89 percent.

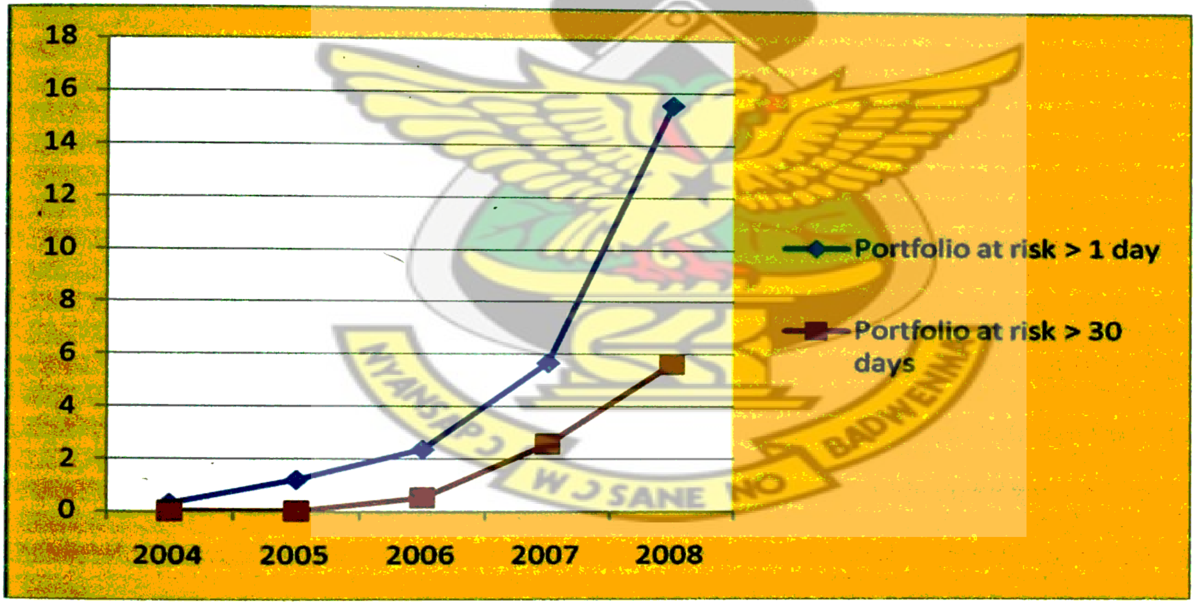
4.2.3.2 Loan Recovery Rate

Loan recovery enhances profitability by turning over loanable funds and minimising default, thus improving the viability of the lending policy of the firm. The recovery rate for the company on the average is 89 percent a decline from 99 percent as of year 2004 and 2005. Despite the decline, in terms of profitability, it can be said that the company is able to cover all its costs as a percentage of assets within its financial margin.

4.2.3.3 Portfolio at Risk (> 1 day and > 30 day)

Portfolio at risk measuring the promptness of payment of the loans, was revealed to be deteriorating evident from figure 4.3 in 2004, the portfolio at risk for more than 1 day and more than 30 days were 0.30 percent and 0.00 percent respectively. As evident in figure 4.3, the portfolio at risk for more than 1 day and more than 30 days have deteriorated to 15.5 percent and 5.63 percent respectively.

Figure 4.3: Trend in the Portfolio at Risk



Source: Authors construct, 2009 derived from 2004/2005; 2006/2007 reports and 2010 – 2014 Business Plan (OIS&L)

From figure 4.3 there is a positive relationship between portfolio at risk for more than 1 day and that for more than 30 days. The study with the aim of understanding the cause of the deteriorating portfolios at risk sought to relate the changing trend in the number of clients to the portfolios at risk using simple regression analysis. The coefficient of determination formula was used as the statistical tool in determination the extent of relationship the study sought to establish as seen in table 4.2

Table 4.2: Relationship between Client Numbers and Portfolio at Risk

Year	Client Number X	X^2	> 30 Days Portfolio			> 1 Day portfolio		
			Y	XY	Y^2	y	Xy	y^2
2004	12,712	161594944	0	0	0	0.30	3813.6	0.09
2005	26,310	692216100	0	0	0	1.20	31572	1.44
2006	55,397	3068827609	0.5	27698.5	0.25	2.35	130182.95	5.5
2007	60,564	3667998096	2.55	154438.2	6.50	5.66	342792.24	32
2008	59,896	3587530816	5.63	337214.48	31.70	15.5	928388	240.25
Σ	**214,879**	**11178167565**	**8.68**	**519351.18**	**38.45**	**25.01**	**1436748.79**	**279.28**

Source: Author's Construct, 2009 computed from 2004/2005; 2006/2007 Annual Reports and 2010 – 2014 Business Plan (OIS&L)

The study employed coefficient of determination to establish the relationship between number of clients and the portfolio at risk. It was identified that 47 percent of the change in the portfolio at risk for more than 30 days is the result of the increasing number of clients. Similarly, 44 percent of the change in the portfolio at risk for more than 1 day is the result of the increasing number of clients.

Thus, as the client numbers increase, there is a corresponding increase in the loan default rate measured by the portfolio at risk. The other factors contributing to the deteriorating portfolios at risk, are the high turnover rate among the Credit Officer in particular and the mismanagement of the handing over process. This according to the management results into the inability to trace clients who have arrears to pay. The repayment period is therefore protracted and sometimes the loans are not paid back.

4.2.3.4 Retention Rate and Savings

For sustainability of a financial institution, the retention rate is a very important variable to be considered. In this regard the retention rate for the firm was taken into consideration. The study identified that the company's retention rate is estimated at 60 percent (2010-2014 Business plan). According to the company a retention rate of 80 percent is ideal and remains one of the objectives of the bank within the next 5 years (2010 – 2014).

Voluntary and compulsory savings from non-beneficiaries and beneficiaries respectively determine the degree of penetration of the firm into the market. The study in line with this statement sought to examine the company's attractiveness to non-beneficiaries in terms of savings. It identified an increasing trend in the number of non-clients (voluntary savings) from 26.1 percent as of year 2004 to 47.7 percent in year 2008 constituting a percentage change of 82.7 percent as seen from table 4.3.

Table 4.3: Trend in the Number of Voluntary and Non-Voluntary-Savers

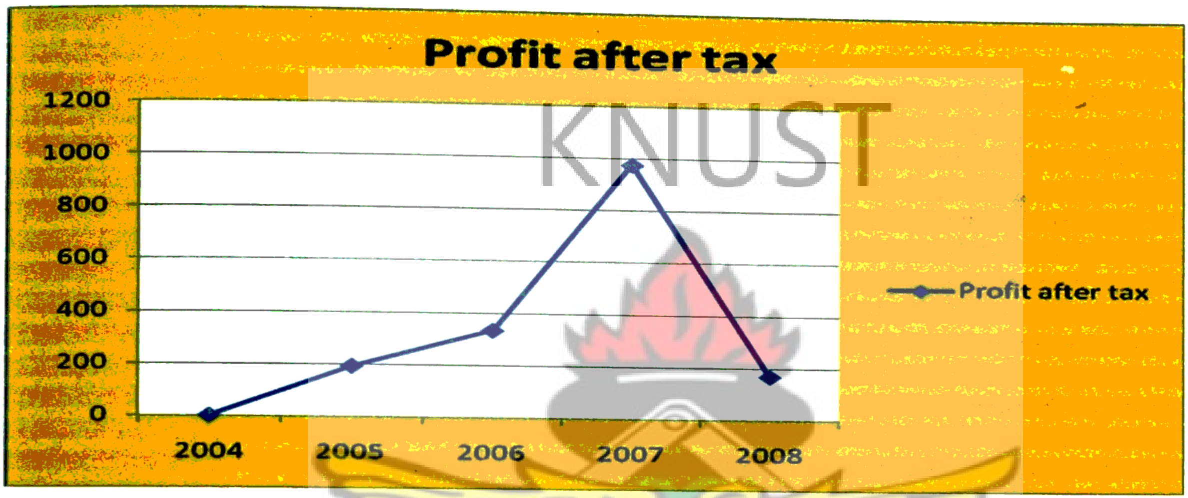
Year	Voluntary Savings	Non Voluntary Savings	Proportion of non Customers
2004	15233	3978	26.1
2005	34879	13442	38.5
2006	42,312	19431	45.9
2007	71,513	34556	48.3
2008	105,526	50221	47.6

Source: OIS&L 2004/2005 and 2006/2007 Annual Reports.

4.2.3.5 Profit after Tax

Profit after tax also determines the efficiency and viability of firms (Sustainable Banking with the Poor 2000) towards sustainability. In line with this the profit after tax level was examined as seen from figure 4.4 as appendix 2.

Figure 4.4: Profit after tax for the company



Source: Authors construct, 2009 computed from Business Plan 2010 - 2014

The profit after tax level increased from 2004 to 2007. The company witnessed that highest profit in 2007 at GH¢ 977,000 a percentage increase of about 193.4 percent from a profit after tax amount of GH¢ 333,000 in 2006. Despite this phenomenal increase, there was a sharp decline from GH¢ 977,000 to GH¢ 167,000, a percentage decrease of about 82.9.

In view of the fact that the portfolio at risk for both more than 1 day and more than 30 days also deteriorated for the affected years, the study sought to establish a link between the portfolios at risk and profit after tax. Using coefficient of determination, it was identified that the portfolios at risk for more than 1 day and more than 30 days determine 62 percent and 56 percent respectively change in the profit after tax for the company.

4.3 The Company's Contribution to Poverty Reduction

A wide range of economic actors have benefitted from the company's credit policy in line with its poverty reduction objectives. Due to this, the study purposively identified some economic actors including vegetable sellers and other food crop sellers, licensed chemical sellers, light industrialist (auto mechanics) and artisans that have received loans on individual basis.

Regarding group loans, market women in the central market and Kumasi race course that have received loans on group basis were interviewed through focus group discussions. These groups were mainly foodstuff sellers. SMEs including licensed chemical shop (drug stores) operators, school proprietors (operators) and churches were interviewed.

4.3.1 Beneficiary Vegetable Sellers at the Central and Race Course Markets

4.3.1.1 Overview

A total of 20 vegetable sellers, who have benefitted from the company's loan policy were interviewed for an examination of the impact of the loan policy on their economic empowerment. Additionally, for ease in attribution, other non-beneficiary (non-beneficiaries on any other loan policy) vegetable sellers in the markets were interviewed.

4.3.1.2 Reasons for Loan Acquisition

The beneficiary vegetable sellers in the market acquired the loans mainly for business expansion that constituted about 90 percent of the responses solicited. The other reason was for increased profit.

4.3.1.3 Impact of the Loan

The study identified that the amount disbursed as loans to vegetable sellers ranged from GH¢ 200 and GH¢ 500. The study first identified that capital has increased between 50 and 100 percent for vegetable sellers. Previously the sellers commanded between GH¢ 300 and GH¢350 as the average amount of capital. However, after receiving the loans, average amount of capital has increased to between GH¢ 500 and GH¢700. Comparing to that of non-beneficiaries, the average amount of capital used in their operations was identified to range between GH¢ 300 and GH¢ 400. In terms of capital, the loan is said to have increased the capital holdings on beneficiaries.

Additionally, weekly profit for beneficiary vegetable sellers have increased by 83 percent from GH¢ 27 to GH¢ 49.5 as seen from table 4.5. On the other hand, the weekly profits for non-beneficiary vegetable sellers have increased from GH¢ 28.5 to GH¢ 34.5, constituting a percentage increase of 21.1.

In comparing the experiment group (the beneficiary vegetable sellers) to the control group (non-beneficiary vegetable sellers) the study can conclude that through the loan beneficiary vegetable growers have witnessed GH¢ 15 additional profit.

Table 4.4: Impact of the loan on the Profits of Beneficiary Vegetable Sellers

Profit (GH ¢)	Beneficiaries		Non-beneficiaries	
	Before	After	Before	After
0-30	13	4	12	9
31-60	6	9	7	9
61-90	1	7	1	2
Total	**20**	**20**	**20**	**20**
Mean	**27**	**49.5**	**28.5**	**34.5**

Source: Field Survey, June, 2009

4.3.2 Beneficiary Light Industrialist at the Suame Magazine

4.3.2.1 Overview

A total of 30 light industrialists who have benefitted from the company's loan policy were interviewed for an examination of the impact of the loan policy on their economic activities. In assessing the extent of the impact of the credit, non-beneficiary light industrialists were also interviewed.

4.3.2.2 Reasons for Loan Acquisition

"Light industrialists" comprising of welders, straighter , fitters, etc were faced with the challenge of pre-financing their operations when awarded contracts. This sometimes delayed their work thereby preventing them from actualising the full potential. About 85 percent of the "light industrialists" interviewed acquired the loans in order to pre-finance their contract in order to win the confidence of their customers.

4.3.2.3 Impact of the Loan

The study identified that the amount disbursed as loans to vegetable sellers ranged from GH¢ 500 and GH¢ 1000. The study identified that capital has increased between 30 and 50 percent for the light industrialists. Their operating capital was quoted to range between GH¢ 1000 and GH¢ 2000. This has enabled them improve upon their operation in terms of time used in executing contracts.

The major distinguishing features between the non-beneficiary and beneficiary "light industrialists" were the amount of operating capital which was identified to be between GH¢ 800 and GH¢ 1200 and the average time used in contact execution. The time dimension came about as a result of the fact that the non-beneficiary "light industrialists" look up to customers for financing which sometimes protracts the time for contract execution.

4.3.3 Beneficiary Hairdressers

Hairdressers that have benefitted from the loan facility offered by the company have witnessed an improvement in their operations. Firstly, all the 20 hairdressers interviewed maintained that their labour base has increased from an average of 4 to 7, as a result of the loan facility acquired. The average number of customers served in a day has increased from an average of 15 to 30, constituting a 100 percent increase. This is partly attributed to the increased number of equipment and the additional hands employed.

Daily Sales of the Hairdressers

In view of the fact that the number of daily customers has witnessed about 100 percent increase, the study sought to identify its impact on the daily sales of the hairdressers. It was observed that the average daily sales was estimated at GH¢ 45 from an average of GH¢ 22.5, a percentage increase of 100.

Hairdressers who have not benefitted from the programme reported that the number of customers is erratic changing all the time. However, the average number of customers was estimated at 15 before and about 18 after the programme. This gives a daily wage of GH¢ 27 having increased by 20 percent from GH ¢ 22.5.

In view of this, the study concludes that an additional GH¢ 18 has been added to the daily sales of beneficiaries by the loan.

4.3.4 Yam Sellers

In a focus group discussion, participating yam sellers indicated that the loan has enabled them procure the yam at the farm-gate prices devoid of any middleman's exploitation. With the loan, participants indicated that tubers of yam bought have increased by between 100 percent and 150 percent. This has impacted positively on the profits by increasing it by between 50 and 100 percent from a range of GH¢ 120 to 150 per week. About 20 percent of non-beneficiary yam sellers are able to procure the yams from the farms. The remaining 80 percent are able to buy the tubers of yam from other markets that include Techiman and Atebubu markets which are relatively expensive than the ones sold on the farms. Their profits were estimated to range between GH¢ 60 and GH¢ 90 per week. The study concludes that the loans acquired have enabled beneficiary yam sellers to witness between 67 percent and 100 percent.

4.3.5 Beneficiary Maize Sellers

Maize sellers in the Kumasi central market and the Kumasi race course in an interview mentioned that with the loan, the number of bags of maize bought has increased from 12 to 22 bags to 30 to 35 bags, a percentage increase ranging from 60 percent and 150 percent per season.

This phenomenal increase has come about as a result of their ability to buy the maize in cash from customers and not on credit as done previously. This has thus encouraged producers to consider selling their produce to them as the first and preferable option. Their seasonal profits have increased from between GH¢ 600 and GH¢ 900 to GH¢ 1200 to GH¢ 1500, a percentage increase ranging between 33 percent and 100 percent.

About, 30 percent of the non-beneficiary maize sellers are able to buy all their maize in cash. The remaining respondents (50 percent), buy the maize sold in a season on credit. Due to this, their attractiveness to producers is relatively lower. They are thus able to sell between 20 and 25 bags, obtaining a profit ranging between GH¢ 700 and GH¢ 1000 per season.

4.3.6 Beneficiary Shop Owners

The company's loans have been disbursed to benefit shop owners in some of the suburbs of Kumasi. The study observed that beneficiary shop owners have been able to expand their shops through the acquisition of the loan. The shops have been furnished with a variety of confectionaries that hitherto were not in stock. This has increased the number of customers received in a day.

With a loan of between GH¢ 500 and GH¢ 1000, monthly profits have increased from an average range of GH¢ 60 - GH¢ 90 to an average range of between GH¢ 120 - GH¢ 150. Non-beneficiaries reported their monthly profits to range between GH¢ 60 and GH¢ 100. The study concluded that the profit increment ranging between GH¢ 40 and GH¢60 can partly be attributed to the loan.

4.3.7 Beneficiary Small and Medium Scale Enterprises

4.3.7.1 Proprietors of Schools

The proprietors of schools interviewed disclosed that salaries paid to their staff on time were a challenge in view of the irregular pattern of the payment of school fees. About 60 percent of the proprietors interviewed regularly take loans from the company in order to maintain the momentum of teachers and other staff.

The schools of the remaining 40 percent of the respondents have been in existence between 4 and 6 years. The loan is therefore taken to catalyse the development of infrastructure, particularly building additional classrooms.

4.3.7.2 Chemical Shops

Licensed chemical sellers have become part of the regular customers of the company. The study identified that the licensed chemical sellers acquired the loans for business expansion. Through the loan they are able to access regularly, they are also able to stock their stores with all variety of drugs thereby increasing the number of buyers by 10 percent.

One of the licensed chemical sellers is quoted as saying "previously I used to sell the commonest and cheapest drugs in my store and turn away patients that required expensive drugs. However, a variety of other dugs are displayed. So I am able to render services to a wide range of buyers". Their working capital was identified to have increased by 50 percent.

4.4 Clients Perception about the company's Policies

4.4.1 Loan Acquisition Procedure

According to Parveen (2005), the ease with which clients obtain loans from financial institutions determine the company's retention rate. It is against this backdrop that the study examined customers' perception about the company's loan acquisition procedure. The study observed that about 85 percent of the borrowers are satisfied with the procedure. Reasons such as the non-demand for collateral security and the ability of the company to meet their loan demands on time were cited as the reasons underpinning their satisfaction.

Conversely, whilst 10 percent were dissatisfied with the loan acquisition procedure, 5 percent were indifferent. The study identified the major reason for this dissatisfaction to be clients' inability to take huge sums of money as loans when required. They are instead given micro loans which are sometimes unable to meet their demands. They are thus forced to borrow from elsewhere to complement the amount granted. This is seen as one of the reasons for the deteriorating portfolios at risk.

4.4.2 Interest Rate and Mode of Repayment

All the customers interviewed remarked that the interest charged on loans is high. The study identified the interest rate to be 42 percent on the principal. This interest rate is 31 percent higher than the highest interest rate charged by the commercial banks in the financial market. Given other options, they would have preferred it if it charges a lower interest on loans acquired.

However, according to the management of the company, due to the door-to-door services rendered to clients, operating cost is relatively higher than that of the commercial banks. Additionally in view of the fact that the clients are mostly operating micro and small scale business coupled with the fact that no stringent criteria are used to select eligible borrowers, interest rate has to be high in order to sustain the company. Interest on loans was seen as one of the means of mobilising revenue for the sustenance of the business.

4.4.3 Perception on the Service Delivery of the Company

All the clients interviewed remarked that the door-to-door services rendered to clients by the company are commendable. Apart from clients taking loans from the company's premises, loan repayment which takes a flexible stance, it is taken by the Credit Officers from the clients' doorsteps.

Additionally, due to the fact that the company does not request for collateral security and other stringent requirements, loans are easily accessed by customers. This was identified to be above-reproach from the perspective of clients.

4.5 Challenges Hindering the Sustenance of the Company

Despite the successes of the firm towards its viability and sustainability discussed above, it is bedevilled with a number of challenges. These challenges are discussed under this section of the report.

4.5.1 Over-centralisation of Decision Making Process

The first challenge to effectiveness and efficiency is the over-centralisation of the decision-making processes. All decisions have to be taken and approved by the senior management team before branch management can take action. The implication is that the uniqueness of the various branches is not considered as the local management have no right to plan, organise and implement their own decisions. This affects the company in times of emergencies where urgent measures are required to be taken. Additionally, some strategies adopted may not work to perfection and that uniformity is not the best answer for efficiency and effectiveness.

4.5.2 High Labour Attrition Rate as a factor underpinning the deteriorating PAR

The study identified high labour attrition (labour turnover) as one of the paramount problems hindering the effectiveness of the company for sustainability. This high labour turnover is skewed towards Credit Officers. This challenge impacts negatively on the repayment of credits by borrowers. The study identified that the borrowers' confidence in newly employed Credit Officers is incremental and accounts partly for the deteriorating portfolio at risks. The high labour attrition rate is blamed on the less priority attached to the welfare of the staff by management.

Additionally, the high labour attrition has a cost implication for training and retraining of staff almost every time newly employed officers are inducted into the company. This hampers the ability of the company to retrain staff on newly introduced financing techniques for efficiency and sustainability.

4.5.3 High Interest Rate and Low Client Retention Rate

The interest on loans is perceived by customers to be high beyond their repayment means. The study identified 42 percent interest charged on the loans given out to customers. This is 31 percent higher than the 32 percent interests charged by the commercial banks.

The high interest rate has not only affected the PAR but also affected the retention rate. The company's current 60 percent retention rate is lower than the 80 percent standard required to render the firm viable and sustainable.

4.5.4 Falling Profit after Tax

The company's sustainability depends largely on its profit after tax level. The higher the profit, the bigger the motivation to continue to be in business. Despite this, the study identified a falling trend of the profit after tax declining from GH¢ 977,000 to GH¢ 167,000, a percentage decrease of about 82.9 between 2007 and 2008. This has serious implications for the sustenance of the company and needs a redress.

CHAPTER FIVE

DISCUSSION OF THE MAJOR FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

This chapter highlights and discusses the major findings from the study. The chapter again discusses the major challenges which inform the recommendations of the study. For easy appreciation the major findings have been grouped under the 5 objectives the study sought to achieve.

5.2 Findings of the Study

The general objective of the study was to assess the sustainability of MFIs with OIS&L as the case study. In the pursuit of this objectives several observations were made by the study of which this section of the report details. For ease in relating the findings to the objectives of the study, they (the findings) are grouped under the five specific objectives of the study.

5.2.1 The firm's financial viability and sustainability

Leadership and Decentralisation – Governance System

The study identified the decision-making process in the company to be characterised by centralisation. This is seen to be in contrast with the decentralised system adopted by MFIs in Bangladesh (Parveen, 2005). Certain decisions are taken by the leadership of the branch under a general ambit of the companies' policies. This decentralised system encourages innovativeness and breeds healthy competition among the various branches.

Staff Welfare and Training

The research further identified that staff are dissatisfied with their conditions of service. This has resulted in high rate of labour attrition/turnover which has in turn affected the portfolio at risk and the repayment rate. This phenomenon is seen as a threat to the financial viability and sustainability of the firm as contained in Qayyum and Munir's (2006) study that involved the sustainability of micro finance institutions in South Asia. Their study revealed that one of the paramount factors affecting MFI's sustainability is the welfare of the employed staff.

According to Battese et al (2000), on the job training and frequent capacity building of staff is perquisite for efficiency and effectiveness. Due to this, banks in Sweden do not relent of their efforts to upgrade and update their staff on contemporary banking facts through regular on the job training. However, the situation in OISL is different from the ideal path adopted by the Swedes bank. Apart from the induction, staff are rarely retrained. This is seen to be counterproductive to effectiveness and efficiency.

The Company's Penetration Rate

The company has been performing well in terms of penetrating the financial market. Parveen's study identified MFIs penetration rate as one of the surest means towards their sustainability (Parveen, 2005). In a similar light, OISL has performed creditably in terms of penetration.

Firstly, the number of branches has witnessed an annual increase of 120 percent from 2 in 2004 to 14 in 2008. Similarly the number of clients has increased by 371.2 percent between 2004 and 2008 from 12,712 to 59896 clients.

Secondly, the gross loan portfolio has increased from US$ 217100 to US$ 21736000, representing a percentage change of 161 and annual growth ate of 0.4.

Thirdly, the study observed a positive correlation between the growth in the gross loan portfolio and the number of clients. The study thus concluded that for the company's aim of achieving a gross loan portfolio level of GH¢ 209,923,518 (US$ 149,945,370) by 2014 requires a total of 552,441 clients.

Additionally, the share of voluntary savings as a proportion of the whole has increased from 26.1 percent in 2004 to 47.7 percent in 2008. The increasing number of clients has resulted into some challenges that include, deteriorating PAR for more than 1 day and more than 30 days. This has further affected the loan recovery rate, witnessing a reduction from 99 percent in 2004/2005 to 89 percent in 2008.

The customer retention rate has been lower the standard requirement of 80 percent. This is blamed on the high interest rate coupled with the proliferation of other MFIs in the local economy.

Lastly, profit after tax though was encouraging between 2004 and 2007, there was a startling decrease of about 193.4 percent from GH¢ 977, 000 to GH¢ 177.

Relating these findings to Parveen's findings and conclusion, the study affirms that for viability and sustainability of the firm, attention has to be given to the low retention rate, deteriorating PAR and the number of clients.

5.2.2 The Company's Contribution to Poverty Reduction

The company through its loan policy has contributed immensely towards socio-economic empowerment of beneficiary economic actors. Firstly, through its (the firm's) loan policy, the profit margin of vegetable sellers in the Kumasi Race course and central market has witnessed an 83 percent increase.

Secondly, light industrialists interviewed are now able to pre-finance their contracts which hitherto were not. This has led to prompt execution of their tasks. Additionally, beneficiary hairdressers have engaged the services of additional apprentices due to business expansion that was made possible through the loan. They have thus witnessed a 100 percent increase in their profit margin.

Yam sellers with the assistance of the company are able to obtain the tubers of yam from the farm gate and at the farm gate price free from middlemen's exploitation. Their profits have thus witnessed an increase ranging between 67 percent and 100 percent.

Responses from maize sellers indicate that through the loan, buying the maize on credit is a thing of the past. Producers are thus willing to sell their produce to the sellers due to their prompt payments. This has increased the number of bags sold in a season and thus their profit levels. These positive impacts affirm Bogan et. al (2007) conclusion that MFIs are effective instruments for poverty reduction.

5.2.3 Customers' Perception about the Company's Policies

Loan Acquisition Process

The study observed that borrowers there are no stringent eligibility requirements such as the insistence on collateral and other eligibility requirements are application in the firm's loan acquisition process. In view of this borrowers see the loan acquisition process as highly favourable. This positive perception has the tendency of increasing the number of clients and in the process contributing to its sustainability.

Mode of Loan Repayment and Interest Rate

Customers of the company are satisfied with the means of loan repayment. This is so because very little amounts are paid either weekly or bi-weekly and spread over a long period. Clients of the firm were also satisfied with the door-to-door strategy employed by the firm to deliver services to its clients. Despite this, the borrowers were dissatisfied with the interest charged on the loans acquired. The dissatisfaction stemmed from the high interest charged on the loans acquired.

5.2.4 Identified Challenges hindering the Sustainability of the Firm

Despite the company's achievement over the years towards its sustainability, the study identified, the study identified some challenges that are inhibiting the unleashing of its full potentiality. Over-centralisation of the decision making process is counterproductive innovation and discourages initiatives.

The company is also bedevilled with high labour attrition which has in turn affected the PAR and the repayment rate in general. Additionally, the high interest rate charged on loans has contributed to the low retention of borrowers. All these have had a negative impact on the after tax profit.

5.3 Recommendations

For the firm to be sustainable in order to continue its anti-poverty policies, the study recommends the following:

5.2.1 Decentralisation

The study recommends that in view of the uniqueness of the customers in the various branches, local management should be given a general policy framework and be allowed to plan, organise and implement decisions at the local level. This will breed healthy competition among the various branches and contribute to efficiency and effectiveness.

5.2.2 Staff Welfare

The ultimate destination of the staff who resign is mainstream banking. This is due to the perception that the conditions of service there is better than at the MFI level. In order to reduce the incidence of labour attrition, the study recommends that hardworking staff who exhibit dexterity in their operations should be acknowledged and rewarded. This will erase the perception that management is not sensitive to the plight of the workers. It will again maintain the staff and its associated effects on the deteriorating PAR and loan repayment.

5.2.3 Frequent on the Job Training

The productivity of members of staff could be enhanced for efficiency and effectiveness if upgraded and updated on contemporary financing issues. This is only possible to frequent on-the-job training and capacity building. This recommendation should not be viewed in isolation but rather be in tandem with the improvement in the welfare of staff.

5.2.4 High Interest Rate

The interest charged on loans is high because interest is the major means of revenue generation by the company. The company is advised to diversify the means of revenue generation. This is possible through the increase in the amount of both voluntary and compulsory savings. The savings can be invested and the accruals used as another means of revenue generation. This is possible though the provision of incentives to attracts voluntary savings in particular as is done in some of the mainstream banks.

5.4 Conclusion

Opportunity International Savings and Loans Limited has contributed immensely towards people's socio-economic empowerment. This is a step towards poverty reduction. In line with the pivotal role being rendered to the economy of Ghana, its sustenance is of primary concern.

The study results prove that the variables for the measurement of the firm's sustainability are generally satisfactory. Nevertheless, due to the proliferation of other financial institutions in the economy, competition has been very keen requiring the firm to re-strategise. In view of this, the recommendations contained in the study has to be given a paramount importance in order to sustain the firm and similar other firms.

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List of Appendices

Appendix 1

Number and Quality of Personnel

Year	Number of Branches	Percentage change	Total Assets	Number of Personnel
2004	2	-	7,742	101
2005	4	75	12,112	182
2006	8	14.3	17,808	364
2007	10	25	29,923	473
2008	14	40	32,304	555

Source: OILS 2004/2005, 2005/2006 and 2007/2008 annual reports

Appendix 2: Detailed information from the firm

Year	Clients	Borrowing	Gross Loan Portfolio ('000)	Total deposits	Savings	Profit after tax	Portfolio at risk > 1 day	Portfolio at risk > 30 days
2004	12,712	1,890	2217.1	n.a.	15233	n.a.	0.30	0
2005	26,310	2,899	4,291.9	n.a.	34879	192	1.20	0
2006	55,397	4,807	12,614.0	5,902	42,312	333	2.35	0.5
2007	60,564	6,167	20,127.0	11,605	71,513	977	5.66	2.55
2008	59,896	3,738	21,736.0	15,394	105,526	167	15.5	5.63

Source: Opportunity international Savings and Loans Limited, Business Plan 2010-2014

FORMULA:

Product Moment Correlation Coefficient =

Adopted from Schaum's Outline Series

$$r = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{(N\sum X^2 - (\sum X)^2 * N\sum Y^2 - (\sum Y)^2)}}$$

Least Square Line = $Y = a_0 + a_1 X$

$$a_0 = \frac{N\sum XY - (\sum X)(\sum Y)}{N\sum X^2 - (\sum X)^2}$$

$$a_1 = \frac{(\sum Y)(\sum X^2) - (\sum X)(\sum XY)}{N\sum X^2 - (\sum X)^2}$$

Definitions:

Y = Dependent Variable

X = Independent Variable

Source: Adopted from Speigel, 1972

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS

Research Topic: Sustainability of Micro Finance Institutions in Ghana; a case study of Opportunity International Savings and Loans Limited

Introduction
This information is required to enable the researcher undertake viability and sustainability analysis for Opportunity International Savings and Loans Limited. Please, be assured that any information provided would be treated with the deserving confidentiality and be used for purely academic purpose.

Please tick ( ) where applicable and supply details where required

Question 1-5(personal info.)

1. Gender

   Male [ ] Female [ ]

2. Educational Background

   SSS/SHS [ ] O' level [ ] A' level [ ] Diploma/HND [ ] Degree [ ]

   Professional [ ]

3. Which department of the bank do you work?

   Operations [ ] Accounts [ ] credit [ ] MIS [ ] data [ ]

4. What is your rank? ....

5. How long have you worked in the bank? ....

Question 6-14 (loan info)

6. Do you have a loan portfolio? Yes [ ] No [ ]
7. If yes how many clients do you have? ....
8. What loan products do you have? Pls. state...
9. Do you take collateral before given loans? Yes [ ] No [ ]
10. What type of collateral do you normally take? Building [ ] Lease [ ] Stock [ ] Car [ ]
11. How do you assess clients before giving them money? ....
12. What is your assessment of your client numbers over the last 6 months.

    Increasing [ ] stable [ ] dwindling [ ]

13. How do you see your interest rates? High [ ] Moderate [ ] Low [ ]
14. Why the above option? ………………………………………………
15. How is client officer relationship? Very good [ ] Good [ ] Fair [ ] poor [ ]

QUESTION 15-17 (Repayment info)

16. How is the mode of repayment? Weekly [ ] Bi-weekly [ ] Monthly [ ]
17. Are clients satisfied with the repayment period? Yes [ ] No [ ] Somehow [ ]
18. Do majority of clients pay back loans as scheduled for them? Yes [ ] No [ ]
19. What would be your own assessment of loan recovery? Very good [ ] good [ ]

    Fair [ ] Poor [ ]

QUESTION 19-23 (Staff welfare)

20. Does management recognize hard work? Yes [ ] No [ ]
21. Are salaries paid on time? Yes [ ] No [ ]
22. What is your assessment of how staff welfare issues are treated?

    Very Good [ ] good [ ] Fair [ ] poor [ ]
23. Do you have the zeal to work for this institution for the next two years?

    Yes [ ] No [ ]
24. Please, give your reason(s) for your answer ………………………………………………

QUESTION 24-28(for branch mgt.)

25. What position do you occupy in the bank? Branch manager [ ] Area manager [ ]

    Relationship manager [ ] Credit supervisor [ ]
26. How many branches do you have? ………………………
27. How do you mobilize deposits? ……………………………………………………………
28. Does the institution borrow from outside to supplement on lending? Yes [ ] No [ ]
29. How would you assess your loan recovery rate? 50% [ ] 60% [ ] 70% [ ] 90% [ ]

    100% [ ]
30. What is your assessment of your credit operations so far? Very Good [ ] good [ ]

    Fair [ ]

Research Topic: **Sustainability of Micro Finance Institutions in Ghana; a case study of Opportunity International Savings and Loans Limited, Kumasi**

Introduction

This information is required to enable the researcher undertake viability and sustainability analysis for opportunity International Savings and Loans Limited. Please, be assured that any information provided would be treated with the deserving confidentiality and be used for purely academic purpose.

Please tick ( ) where applicable and supply details where required

Question 1-5(personal information)

1. Educational Background

   SSS/SHS [ ] O' level [ ] A' level [ ] Diploma/HND [ ] Degree [ ]

   Professional [ ]

2. Are you married Yes [ ] No [ ]
3. What type of business activity are you engage in?

   Petty trading [ ] manufacturing [ ] Second hand clothing [ ] foodstuff [ ] others, specify………………………………………………

4. How long have you been in business?

   Below 6 months [ ] below 1 year [ ] 1-2years [ ] 2-5 years [ ] 5-10 years [ ]

5. How long have you worked with OIS&L? 0-1year [ ] 1-2 years [ ] 2-5 years [ ] above 5years [ ]

Question 6-14 (loan information)

6. Are you a loan client? Yes [ ] No [ ]
7. What type of loan did you take? Individual loan [ ] Group loan [ ] Susu Loan [ ]
8. How much loan did you take in your last request? Below GHC 1,000 [ ] 1,000-2000 [ ] 2,000-5000 [ ] 5,000-10,000 [ ]
9. Did you provide collateral for the loan you took? Yes [ ] No [ ]
10. How is your assessment of the interest rate charged? High [ ] Moderate [ ] Low [ ]
11. What loan cycle was your last request? 1st cycle [ ] 2nd cycle [ ] 3rd [ ]cycle 4th [ ] above 5th cycle [ ]

12. What was the mode of repayment? Weekly [ ] Bi-weekly [ ] Monthly [ ]

Question 14-17 (Assessment)

13. Have you been in any way affected by the repayment period? Yes [ ] No [ ]

14. If yes in what way? ....

15. Do you have a deposit account with the bank? Yes [ ] No [ ]

16. To what extent has the credit been of help to you? ....